

Testimony of Secretary Paul Jadin
Senate Committee on Economic Development and Veterans and Military Affairs
Assembly Committee on Jobs, Economy and Small Business
Senate Bill 94 / Assembly Bill 129

Thank you Chairman Hopper, Chairwoman Williams and committee members for the opportunity to speak to you today.

As the secretary of the state agency responsible for fostering economic development and job creation, I am appearing today in support of Senate Bill 94 and Assembly Bill 129. I appreciate your willingness to promptly hold a hearing on this legislation, which seeks to fill a critical gap in our capacity to assist employers in expanding their operations and creating job opportunities for Wisconsin workers.

I have had the great fortune of travelling throughout Wisconsin since the beginning of the year, in both my role as Commerce Secretary and in discussing plans for the transition of our economic development functions to the Wisconsin Economic Development Corporation. There has been a clear and consistent message on the issue of access to capital: Wisconsin is making strides in our region in angel network investment, while lagging in venture capital.

Comparisons will be made to past programs that yielded questionable results from the perspective of both job creation and cost-effectiveness. I will leave it to others to speak to the differences in the provisions of these programs versus previous models. My hope is that lawmakers will make decisions based on apt comparisons not only on the difference between this bill and past efforts, but on the difference between where Wisconsin stands relative to other states today. For instance, according to data released just last week by the National Association of Seed & Venture Funds, relative to other Midwestern states, Wisconsin ranks at the bottom both in terms of venture capital investments per capita and in venture capital investments as a percentage of GDP. Minnesota, meanwhile, ranks first among those states in our region.

When I testified before you on the legislation creating the WEDC, I mentioned that the tools provided to me by the Governor and Legislature would be the most critical elements of our success in assisting companies. This bill offers to fill one of the more crucial needs in our policy arsenal. The strategic plan for the WEDC includes a keen focus on accelerating entrepreneurship and innovation in Wisconsin. In fact, we will devote an entire division to this purpose as we work with partner organizations to develop, recommend and advance innovative policies on venture capital, R&D expansion, and new product and business development. But even as robust as I expect those efforts to be, it takes access to capital to launch a business to the next stage.

For those who would suggest we do nothing, keep in mind how Wisconsin made considerable gains in angel network investments. The Act 255 tax credits were a bipartisan effort that moved Wisconsin forward. I expect this legislation to have no less a significant impact.

Again, thank you for your consideration. I look forward to your continued progress on this bill, and will be glad to respond to any comments or questions at this time.



STATE REPRESENTATIVE

JOHN KLENKE

88TH ASSEMBLY DISTRICT

May 16, 2011

Representative John L. Klenke, 88th Assembly District

Testimony LRB 1556/3 - The Wisconsin Jobs Act

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I am a new legislator who was motivated to run for office by the fiscal disaster looming on Wisconsin's horizon. I believed then, and even more so now, that legislators need to develop a strategy for increasing jobs in the State of Wisconsin.

Wisconsin's road to renewal is based upon the strategy of attracting, retaining, and growing business, or as the Governor touts, "Wisconsin is open for business." In the May 3, 2011 issue of CEO magazine, Wisconsin moved up 17 places to #24 for the magazine's annual Best/Worst States to do business. This was the largest jump of any state. Clearly, the work we have done to date and the course we have set is winning Wisconsin recognition.

Job creation however, requires more than marketing. It requires action. We are all aware that no single event will move our state forward. Rather, it will be the cumulative effect of many actions. Today, I am pleased to sponsor the Wisconsin Jobs Act. LRB 1556/3 is a bill to attract capital to Wisconsin small businesses and boost the state's ability to accelerate economic growth.

Economic growth is the outcome that occurs when capital is mixed with ideas that drive innovation and product development in the hopes of making a profit. Economic growth manifests itself in many ways: increased employment, new housing purchases, the attraction of other families and businesses, expanding churches, new service offerings, increased enrollment in schools, the addition of protective services as well as the building of hospitals and clinics. These events are indicative of a growing and a vibrant community. Without capital however, none of these events are possible and our growing and vibrant community remains only in our imagination.

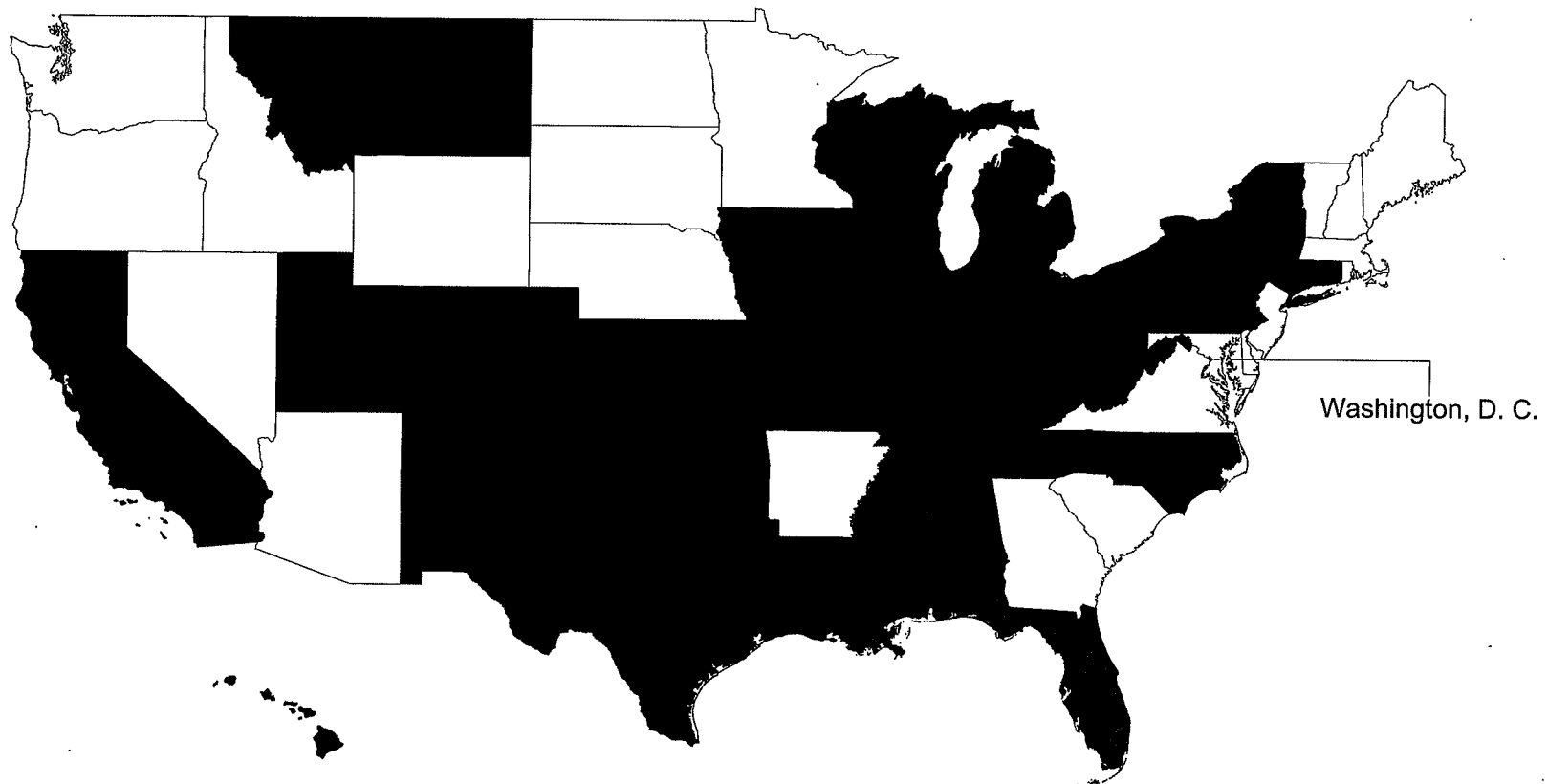
Important for any strategy, is recognizing the competitive environment. Exhibit 1 attached illustrates that states are increasingly developing programs with the use of taxpayer funds to attract venture capital to their

state. I personally believe that this is not the role of state government and that once initiated, it will reduce or eliminate the private sector's role. However, Wisconsin cannot pretend to ignore the actions that other states are taking to attract capital, the most precious resource needed to foster economic growth and boost job creation in our state.

This bill merges the strengths of government such as access to capital, an investment grade credit rating, and strong innovation and research from the University of Wisconsin system while leveraging the expertise of the private sector. The private sector excels with its ability to quickly adapt to take advantages of its strengths, appetite for risk/reward, and its ability to evaluate various industries, products and business models. The private sector is also adept at identifying market needs while reaching into the networks of venture capital projects throughout the nation that may be merged with another idea to create a hybrid product. Together, cooperation between the Wisconsin's public and private sectors has the ability to combine the strengths of each, while balancing out each other's weaknesses.

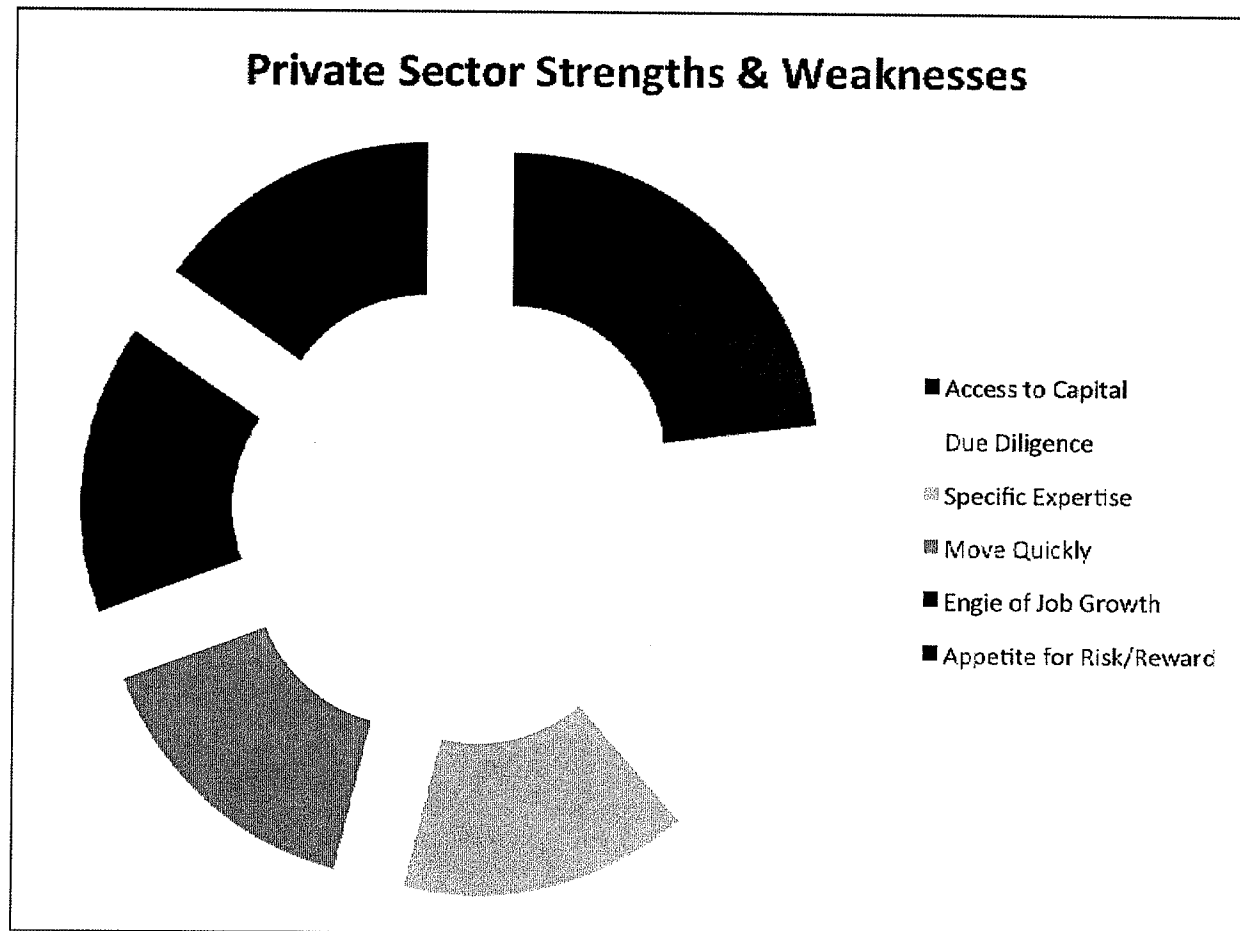
In summary, I urge you to endorse the Wisconsin Jobs Act which will enable Wisconsin to attract the precious capital needed to increase job growth and economic activity in Wisconsin. Furthermore, the bill takes advantage of the strengths of both the public and private sectors while overcoming the weaknesses of each. To do otherwise will place Wisconsin and its residents at a competitive disadvantage in an increasingly competitive marketplace.

State Sponsored Fund-Level Venture Capital

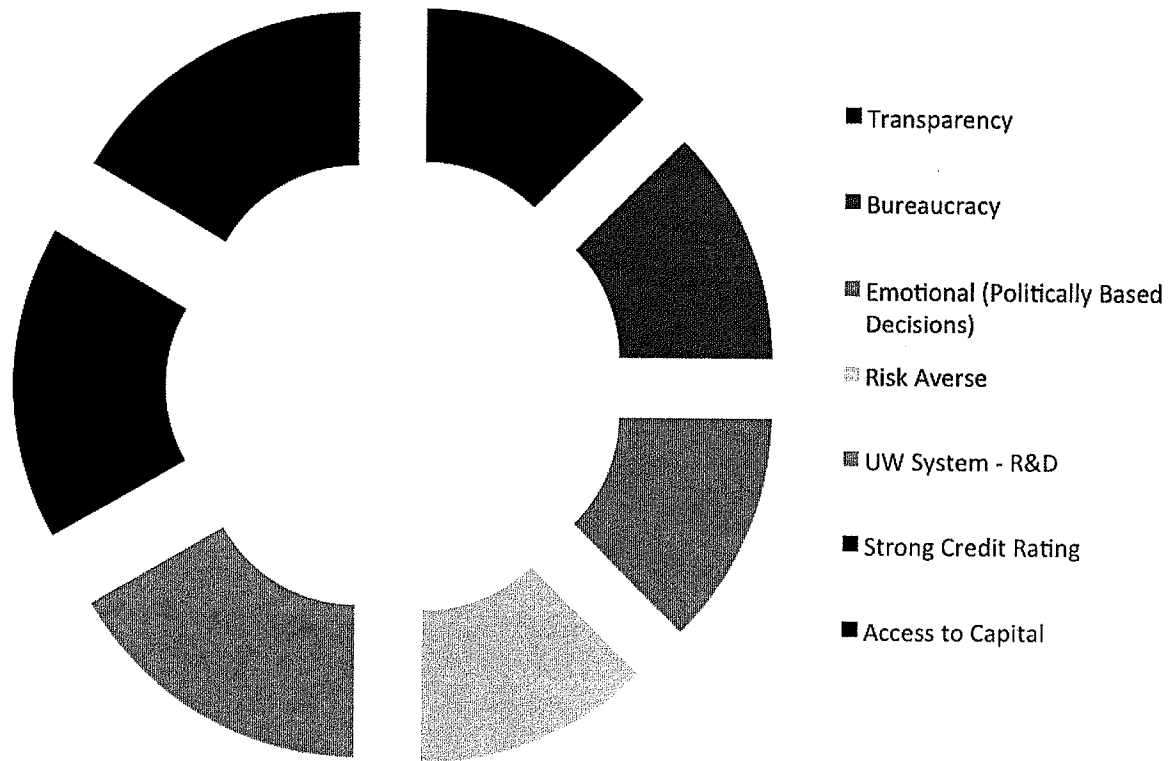


Note: This map includes all states with programs enacted in the last 10 years. Other programs may exist beyond those shown above.

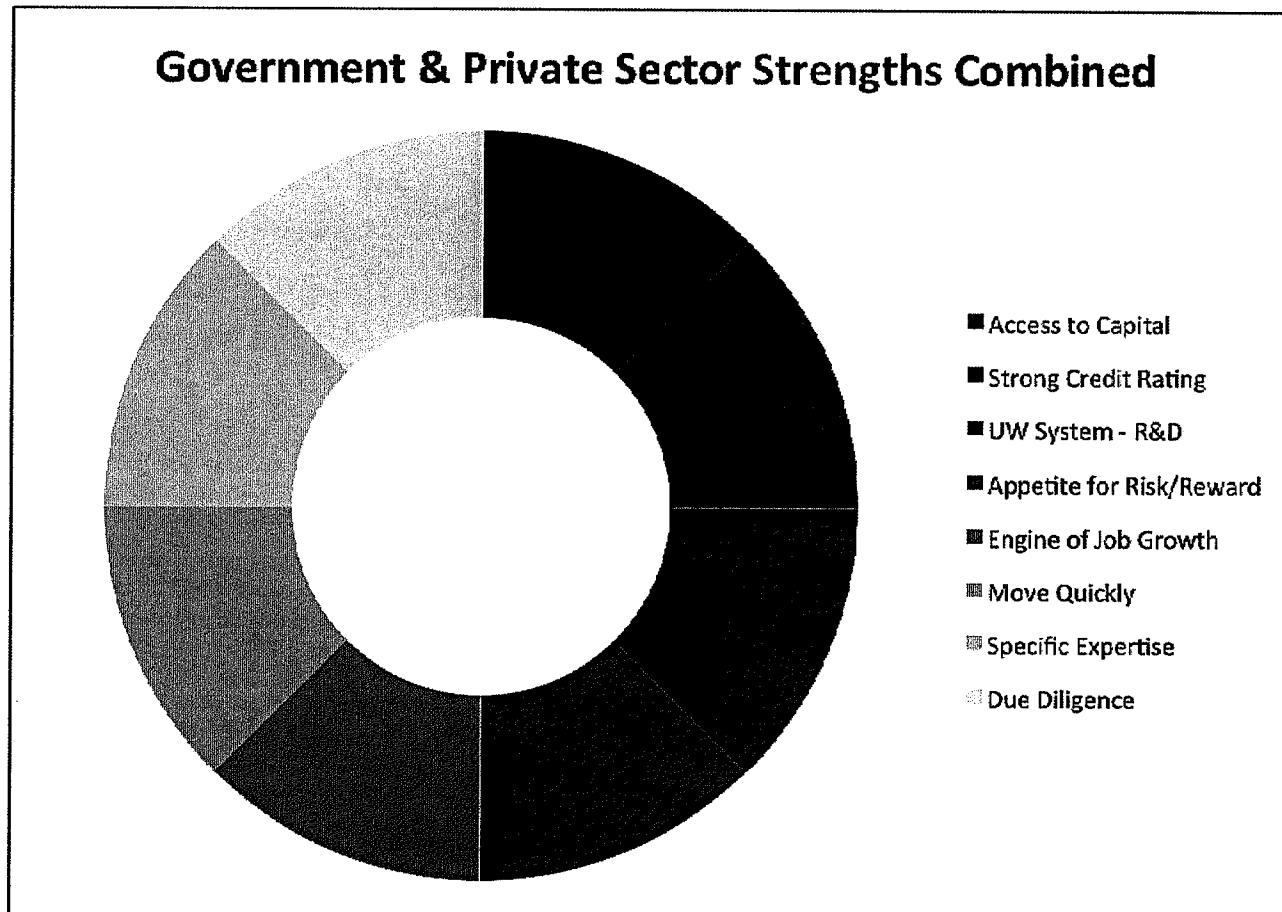
One major benefit of a state sponsored fund-level program is the ability to combine the strengths of both the Wisconsin private sector and the Wisconsin Government.



Government Strengths & Weaknesses



Separately, the Wisconsin private sector & state government each bring different things to the table. They each have their own individual strengths, and they each have their own weaknesses. Combined, the strengths of the two balance out each other's weaknesses.



Mike Kuglitsch

STATE REPRESENTATIVE • 84TH ASSEMBLY DISTRICT

May 16, 2011

Testimony in Favor of AB-129 The Wisconsin Jobs Act

Thank you Madame Chair and committee members for letting me testify today in favor of AB-129, the "Wisconsin Job Act."

We are in an extended recession with record unemployment. No matter what area of the state or district you represent. We all know of individuals that have fallen on hard times. In order to correct this, we must create jobs and business creates jobs. The fuel for business is capital. I believe capital is the engine to economic development and growth.

Unfortunately, the first quarter of this year saw Wisconsin garner less than one percent of all venture capital investments in the United States. The majority of venture capital investing is done on the east and west coasts. This bill will give Wisconsin the tools to attract venture capital investing in the "Jobs Now Fund" and the "Badgers Now Fund."

This is our defining moment, we as legislators can either sit on the sidelines or get in the game. We have two choices: 1- Do nothing on this bill and watch venture capital continue to by-pass Wisconsin and even worse watch the entrepreneurs and businesses leave this state for capital elsewhere. Or 2- Embrace and support the "Wisconsin Jobs Act" which creates a public-private partnership that would attract venture capital dollars to this state.

No matter what side of the aisle you are on, business development and job creation must be a priority. We know that small businesses have the largest growth potential and this bill helps early stage companies as well as small companies needing capital to progress to the next level.

This bill has bi-partisan support with Democrat Representative Jason Fields. When we pass this bill, we will be sending a loud and clear message that Wisconsin is not only "Open for Business" but we are "In It to Win It." I ask this committee for your support of the "Wisconsin Jobs Act."

Thank you.



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Testimony AB-129

Chairman Hopper and Chairwoman Williams I would like to thank you for the opportunity to discuss the Wisconsin Jobs Act before this Joint Hearing of the Senate Committee on Economic Development and the Assembly Committee on Jobs, Economy, and Small Business. While crafting the Wisconsin Jobs Act we have heard from many interested parties wishing to invest in Wisconsin based companies and utilize Wisconsin workers. The Wisconsin Jobs Act gives us the leverage to provide greatly needed resources to immediately impact Wisconsin's job growth. Similar programs have generated private sector jobs, wealth, and provided a tax base for state governments across the country. Wisconsin Jobs Act seeks to use venture capital to help recent startup companies take root here in Wisconsin. The Wisconsin Jobs Act is modeled after similar programs in Texas and Ohio which helped those states weather the recent economic down turn that has impacted the global economy.

The Wisconsin Jobs Act attempts to fill an access to capital void that has been impacted by banking reforms at the federal level. Early stage companies often have difficulty working with conventional banks and loan companies due to severe limitations to credit and investment money created in part by regulations. By utilizing a stable money source we can lead local Wisconsin based companies out of the "Valley of Death", which is the funding gap between angel investment and private equity investment. This is the most challenging stage for start up companies. The solution is to attract additional capital to Wisconsin for investment in job creators. To achieve this goal the Wisconsin Jobs Act intends to create two funds: "Jobs Now Fund" for immediate growth companies and a "Badger Jobs Fund" for longer term sustained job growth.

The Jobs Now Fund will provide \$200 Million in premium tax credits to certified capital companies that in turn invest in Wisconsin qualified businesses. These qualified businesses must have fewer than 100 employees with at least 80% located in Wisconsin or 80% of the payroll, be primarily engaged in labor intensive activities such as manufacturing, processing, assembly, research and development, or providing services, and have their principal base of operations in Wisconsin. There are numerous safeguards and oversight to assure the citizens of Wisconsin their tax dollars will be soundly invested.

The Badger Jobs Fund will invest in qualified venture capital businesses on a fund of funds basis. This will be done by creating a Wisconsin Venture Capital Authority that will make and oversee investments. Those eligible investments must reach certain requirements; be headquartered in Wisconsin, 50% of the employees must live Wisconsin, and agree to use the funds for research and development, product introduction, entry into a new market, or business expansion. The state will gain financial support for the bonding authority by receiving incremental withholding taxes from payroll growth, investment returns, and contingent tax credits. The WVCA would be required to issue audited annual financial reports regarding various details to determine the financial status of the Authority and its performance.

In Wisconsin there are limitless ideas and business opportunities for companies that simply need capital to grow. Wisconsin can and should take a proactive approach to creating jobs and investing in our future.

I would like to thank the committee for their consideration of the Wisconsin Jobs Act.

EVALUATION OF THE WISCONSIN CAPCO PROGRAM: 2011

Donald A. Nichols
Professor Emeritus of Economics and Public Affairs
University of Wisconsin-Madison

May 13, 2011

This report is a revision of the report of the same title that I wrote in mid-2010. New data have been made available to me and the estimates have been brought up to date based on the new data. Some of the revisions are simple updates of data included in my original report. The major change in the data is that this report includes data for a third fund directed by Wilshire Investors. I did not have or use data for Wilshire in the original report. I do not have data for the Wilshire fund for some of the components of the estimates. Unless otherwise noted, estimates of these components for Wilshire have been scaled according to the levels of employment .

This report summarizes the new estimates. Much of the original report described the methodology that was used to generate the estimates of "INDIRECT" and "INDUCED" employment, and the manner in which tax collections were estimated. That methodology has not been changed and its description is not included in this brief revision.

In 1998 Wisconsin authorized the use of \$50 million of limited tax credits for Certified Capital Companies under a program referred to as CAPCO. The CAPCO program was intended to invigorate the state's economy by funding investments in startup firms or in small promising

businesses. The tax credits were provided to three separate venture capital funds. The three funds provided investment capital to 33 new, largely high tech, firms over the years 2000 – 2008. A total of \$40,448,870 of credits were provided to these firms.

The major effects of these investments results are that:

By 2009, the 33 firms had hired 944 new in-state workers.

I estimate that additional employment of 814 workers was most likely generated by the combined spending of the CAPCO firms on supplies and the spending by their employees on ordinary consumer goods.

The average salary paid to the new workers in the Advantage Capital and the Stonehenge Funds were \$68,650 in 2009. Wilshire data were not available.

In addition to the \$40 million of capital provided by the tax credits under the CAPCO program, as of 2009 the firms in the Advantage and Stonehenge Funds had been able to attract \$485 million in additional capital from outside sources. It is not known how much of this additional investment came from out of state.

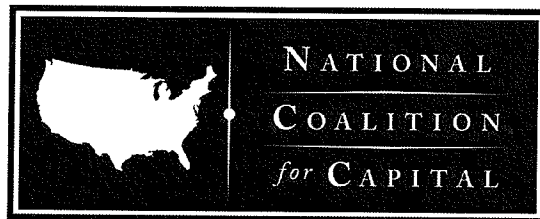
Tax payments on the Personal Income earned by the newly employed workers is estimated to be \$13.5 million in 2009. Additional taxes – not estimated – were paid by the

owners of these firms on their Wisconsin earnings and by the payments received by lenders, landlords and overseers. No estimate is provided of the sales tax paid by these firms on sales in excess of payroll.

The current rate at which taxes are being paid per year, namely \$13.5 million, is a rate that is likely to continue each year in the future at a minimum. More likely it will grow. At this rate, the state's monetary investment in these firms is likely to be recouped in the form of additional taxes paid in less than four years.

EVALUATION OF THE WISCONSIN CAPCO PROGRAM THROUGH 2009

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Evaluation Published by the National Coalition for Capital

July 2010

EVALUATION OF THE WISCONSIN CAPCO PROGRAM

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In 1998 Wisconsin authorized the use of \$50 million of limited tax credits for Certified Capital Companies under a private investment tax credit program referred to as CAPCO. The CAPCO program was intended to invigorate the state's economy by funding investments in startup firms or in small promising businesses. This report summarizes the experience of the group of firms receiving investment capital under this provision of the tax code. Individual firm data are provided in the tables below.

The tax credits were provided to three separate venture capital funds. Reported in the Appendix are data for two of the three funds initiated under the CAPCO program. The two funds provided investment capital to 23 new, largely high tech, firms over the years 2000 – 2008. A total of \$34,430,000 of credits was provided to these firms.

The results, summarized in Table 1, indicate that by 2009, the 23 firms had

hired 898 new in-state workers with payrolls of \$61.6 million.

The average salary paid to these new workers was \$68,650 in 2009.

Table 1

TOTAL EMPLOYMENT, AVERAGE SALARY AND PAYROLL	
Employment	898
Average Salary	\$68,650
Payroll	\$61,600,000

In addition to the \$34 million of capital provided by the tax credits under the CAPCO program, as of 2009 these firms had been able to attract \$485 million in additional capital from outside sources. It is not known how much of this additional investment came from out of state.

Table 2

CAPCO FUNDS INVESTED AND TOTAL ADDITIONAL CAPITAL ATTRACTED FROM OUTSIDE SOURCES	
CAPCO Funds invested	\$34,430,000
Additional Capital from outside sources	\$485,000,000

Tax payments on the Personal Income earned by the newly employed workers are estimated to be \$6.9 million in 2009. Additional taxes – not estimated – were paid by the owners of these firms on their Wisconsin earnings and by the payments received by lenders, landlords and overseers. No estimate is provided of the sales tax paid by these firms on sales in excess of payroll.

The current rate at which taxes are being paid per year, namely \$6.9 million,

is a rate that is likely to continue each year in the future at a minimum. More likely it will grow. In addition, taxes will be paid by employees outside the firms whose jobs are generated as a result of spending by the firms and their employees. It is estimated below that if tax payments by these outside firms are included, that the increase in taxes paid, based on payroll alone, was likely to have been \$12.8 million in 2009. Again, this does not include taxes on payments to owners, lenders or landlords, or sales taxes collected on sales in excess of payrolls.

BACKGROUND ON THE CAPCO PROGRAM

The Legislature enacted the CAPCO program in April 1998, to take effect on June 1 of 1999 (See 1997 Wisconsin Act 215 which is 1997 Senate Bill 333). The bill limits investments to small businesses (sales of less than \$2 million,) meeting a variety of criteria which are specified by the Department of Commerce in Chapter 111 (A summary of the criteria is provided below).

In October 1999 three firms were certified to select and manage the investments in the small businesses: Advantage Capital, Stonehenge Capital and Wilshire Investors. These firms were or worked through existing venture capital funds. Data were provided to me by Advantage Capital of the experience of the Advantage Capital and Stonehenge funds. These data are reported in an Appendix at the end of this report.

FOLLOW-ON CAPITAL INVESTMENT

Several of the firms receiving capital were startups while others were in the early stages of growth. In both of these groups, the provision of capital through the CAPCO program enabled them to raise additional capital from outside sources. This additional capital includes investments from non-state sources which represents capital brought into the state that accelerates economic growth in Wisconsin.

Total additional capital raised was \$82.8 million for Stonehenge and \$402.6 million for Advantage Capital.

Table 3

Total Additional Capital Raised from Outside Sources	
Stonehenge Capital	\$82,800,000
Advantage Capital Partners	\$402,600,000

As often happens when investments are made in small firms with promising but unproven futures, a few firms stand out and dominate the performance. In this case, the outstanding firm was TomoTherapy, which ended up raising \$224.4 million of additional or outside capital by 2009. It has been reported to me that TomoTherapy would not have expanded without the initial CAPCO investment.

ESTIMATING THE DIRECT IMPACT OF THE CAPCO INVESTMENTS ON EMPLOYMENT IN WISCONSIN

The term "DIRECT" is used to refer to actual employment by the 23 firms. Two additional terms are used to refer to employment generated in ancillary businesses by the additional economic activity of the 23 firms. "INDIRECT" employment refers to the employment of workers in firms that sell goods and services to the 23 firms, while the term "INDUCED" refers to employment in firms whose products are bought by the new employees.

DIRECT EMPLOYMENT

Table 4 indicates the levels of direct employment in 2009 for each of the firms that received investment funds under the CAPCO Program. Direct new employment for Stonehenge firms was 431 and for Advantage Capital firms 467.

Table 4

DIRECT NEW EMPLOYMENT	
Stonehenge Capital	431
Advantage Capital Partners	467

Stonehenge Capital	431
Advantage Capital Partners	467

Again, TomoTherapy dominates the results for Advantage Capital. Without TomoTherapy, total direct new in-state employment in 2009 would be 151 in the Advantage Capital fund.

ESTIMATING THE DIRECT IMPACT ON TAX RECEIPTS FROM THE CAPCO INVESTMENTS

The data reported in the tables in the Appendix include some but not all of the components of Personal Income generated directly by these firms. Payrolls are reported but other payments are not. Specifically, payments to resident owners, lenders, and landlords, all of which are part of Personal Income, are not reported.

While payrolls are known, taxes paid on payrolls are not. In this section taxes paid on payrolls are estimated using state-wide averages.

The state-wide average is computed as follows. In 2009, total Personal Income in Wisconsin was \$ 212.6 billion, and of that \$ 23.7 billion was collected in state and local taxes. This means that the average dollar of economic activity in Wisconsin yielded \$ 0.1115 of state and local tax revenue, or 11.15 % of Personal Income. These taxes would include the Income, Sales and Property Taxes as well as the lesser taxes.

DIRECT TAX RECEIPTS

In the tables below, total direct payments for wages and salaries are reported to be \$27 million for the Stonehenge firms and \$ 34.6 million for the Advantage Capital firms. When we apply the tax ratio that was computed above, namely 11.15%, to the Wage and Salary totals for both groups of

firms, we can estimate tax receipts generated directly from payrolls alone to be \$3 million and \$ 3.9 million in 2009. Note that the total of \$6.9 million is received annually in exchange for a one-time tax credit of \$34.4 million. This means that at the rate that taxes were being paid in 2009, the initial tax credit would be paid back to Wisconsin governments in five years.

We can be confident that these estimates of direct tax payments are lower bounds for several reasons. 1) No estimate is provided of Wisconsin Personal Income generated directly by these firms other than the part that is paid in Wages and Salaries; That is, no estimate is calculated of the taxes paid on the profit earned by the owners of the firms or by lenders or landlords. 2) Compensation per employee was higher in these firms than the Wisconsin average, so the employees are likely to pay a modestly higher than average rate of tax on their incomes.

ESTIMATING THE INDIRECT AND INDUCED EFFECTS OF THE CAPCO PROGRAM

No data are available of a) the number of new employees hired in the firms that supply goods and services to the CAPCO firms, or b) those hired by firms that sell ordinary retail products to CAPCO employees. These are workers whose jobs were created in response to expenditures by the CAPCO firms and the number of such positions must be estimated.

Conventionally, the jobs of these additional workers are classified as INDIRECT and INDUCED. Similarly, the additional Wisconsin income generated by the CAPCO firms can be classified as Indirect and Induced and the taxes paid can be called Indirect and Induced tax payments.

INDIRECT EFFECTS

Indirect effects result from the economic activity generated by these firms through their purchase of goods and services from local suppliers. These purchases can range from relatively basic services, such as snow-plowing and yard work to very specialized equipment. These purchases can be estimated only in approximate terms. The estimate used here is 40%, an estimate that I believe is quite conservative. That is, I estimate that the increase in local purchases generated by the new economic activity (the indirect effect) is 40% of the direct effect.

40% is consistent with estimates that have been made in previous studies using large computational models. The estimates from the models are based on data using typical firms in industries that are quite broadly defined. The firms in the CAPCO program are not typical. They are extremely small and very specialized. One way larger firms can grow is by producing their own supplies and in some cases by buying their suppliers. The firms in this study are small and meet the bulk of their needs by purchases of goods and services

from outside firms hence the ratio of purchased supplies to payroll is likely to be much larger for these firms than for mature firms.

Supporting this view is the fact that the Adjusted Gross Revenue (AGR) of the firms that report AGR is quite large relative to payroll, (3 to 1.) (Note that data for Adjusted Gross Revenue were reported to me only for the firms in the Advantage Capital group.) These data are approximate.

Adjusted Gross Revenue is made up largely of sales. Each dollar of sales goes to workers or suppliers or owners. The 3 to 1 ratio suggests that these firms met a large share of their needs for equipment and materials from outside suppliers.

While the ratio of 3 to 1 implies a very large indirect effect, it should be remembered that these large estimates of purchases from outside firms are reduced when computing local effects, which is the objective of this report. That is, what is computed here is employment generated in Wisconsin. The 40% estimate of local purchases is substantially smaller than the total volume of purchases signified by the 3 to 1 ratio. If small young firms are more likely than large firms to rely on local accountants, lawyers and consultants, the overall estimate would be larger than 40%.

After looking at the data for these firms, and after understanding the

limitations of the existing estimates, it is my view that 40% is a conservative estimate of the amount of employment and Personal Income generated by these small firms through their purchases from local suppliers. My estimates are reported in Table 5 below. I estimate that 359 new jobs were created in Wisconsin as a result of the increased in-state purchases of services and supplies by the firms receiving venture capital. State and local tax receipts in Wisconsin are estimated to be \$2.7 million larger in 2009 because of the indirect increase in economic activity.

Table 5

INDIRECT EFFECTS			
In-state employment	In-state average salary generated	In-state payroll generated	Estimated Wisconsin taxes paid
359	\$68,650.61	\$24,659,262	\$2,749,508

INDUCED EFFECTS

As with the indirect effects the induced effects can only be estimated. Such estimates must by nature be approximate.

Induced effects are a measure of the income and employment generated by the spending of employees on local goods and services. A large fraction of such spending goes to local suppliers. Of course, some of the products sold by local suppliers are produced out of state, so the full amount of employee spending does not add to Wisconsin Personal Income. It is estimated here that only one third of spending from payroll leads to an increase in Wisconsin

Personal income. I believe that this is a conservative estimate.

Note that the estimate of the induced increase in Personal Income, namely one third, applies also to the spending of employees hired indirectly. Based on this one-third estimate of induced economic activity, I calculate an increase of 415 new jobs and an increase in tax payments of \$3.1 million in Wisconsin in 2009. See Table 6.

Table 6

INDUCED EFFECTS			
In-state employment	In-state average salary generated	In-state payroll generated	Estimated Wisconsin taxes paid
415	\$68,650.51	\$28,481,448	\$3,175,681

TOTAL EMPLOYMENT AND TAXES

When the Indirect and Induced increases in Personal Income are added to the Direct Increase, the total increase in salary income in Wisconsin in 2009 is estimated to have been \$115 million while the total increase in employment is estimated to have been 1,672. Total tax receipts are estimated to have increased by \$12.8 million in 2009.

TABLE 7

TOTAL DIRECT, INDIRECT AND INDUCED EFFECTS			
In-state employment	In-state average salary generated	In-state payroll generated	Estimated Wisconsin taxes paid
1672	\$68,650.51	\$114,788,865	\$12,798,958

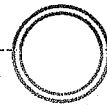
This estimate of the total increase in State and Local taxes paid refers to the year 2009 alone. It is important to remember that these firms will continue to exist and grow and will provide a growing stream of tax revenue in the future. Moreover, no estimate has been provided of taxes already paid by these firms and of the tax payments of owners or lenders, or of sales taxes collected on those sales made in excess of employee compensation.

APPENDIX

Company	Industry	CAPCO Funds Invested	Follow-on Capital	Jobs at Date of Investment	Latest Reported Job Count	Growth of In-state Employment
Gala Design	Biotech	\$900,000	\$20,068,520	20	29	25
Alfalight	IT	\$1,831,661	\$66,000,000	6	44	34
Softswitching	Energy	\$2,205,204	\$25,174,315	30	32	-2
TomoTherapy	Biotech	\$2,478,701	\$224,385,412	23	602	316
Guild	Other	\$500,000	\$10,900,052	26	19	-7
Virent	Biotech	\$1,610,242	\$26,900,000	17	78	61
Advantage Aero, Inc.		\$ 0	\$1,260,000	0	3	3
Collectar	Biotech	\$2,000,000	\$11,500,000	1	18	17
NeuWave Therapy	Biotech	\$1,280,000	\$10,000,000	5	15	10
FoodUSA.com	Services	\$1,050,000	\$5,215,295	0	0	0
Silicon Logic	IT	\$1,250,000	\$0	29	37	10
BuySeasons, Inc.	Communications	\$600,000	\$0		320	
Automatan Holdings, LLC	Manufacturing	\$1,175,000	\$8,950,000		40	
EraGen Biosciences, Inc.	Biotech	\$740,215	\$14,582,418		44	
Felins Holding Company, Inc.	Manufacturing	\$1,500,000	\$4,500,000		30	
House of Harley	Manufacturing	\$1,300,000			49	
Instrument Development Corporation	Manufacturing	\$3,250,000	\$4,110,000		100	
LS Research, LLC	Communications	\$900,000	\$8,080,000		39	
Mortgagebot, LLC	Manufacturing	\$1,100,000	\$2,750,000		46	
NameProtect, Inc	IT	\$850,000	\$2,676,652		72	
Opgen	Biotech	\$350,000	\$5,050,000		19	
Ridgeview D & J, LLC	Manufacturing	\$800,000	\$2,510,000		28	
TeraMedica, Inc.	IT	\$750,000	\$4,000,000		25	
TLX Technologies, LLC	Manufacturing	\$800,000	\$0		19	
Up-N-Atom, Inc.	Manufacturing	\$1,250,000	\$280,000		10	
ZyStor Therapeutics, Inc. (f/k/a Symbionics Acquisition Corporation)	Services	\$2,250,000	\$5,250,000		10	

Company	In-state Average Employee Salary	Total Payroll	Growth in Payroll	Adjusted Gross Revenue Prior to Investment	Current Adjusted Gross Revenue
Gala Design	\$62,150	\$3,120,000	\$1,625,000	\$0	\$15,000,000
Alfalight	\$64,600	\$2,842,400	\$2,196,400	\$0	\$7,800,000
Softswitching	\$60,800	\$1,945,600	(\$121,600)	\$1,200,000	\$6,000,000
TomoTherapy	\$74,000	\$46,354,000	\$23,384,000	\$0	\$150,000,000
Guild	\$68,000	\$1,292,000	(\$476,000)		\$5,000,000
Virent	\$75,494	\$5,888,532	\$4,605,134	\$0	\$13,000,000
Advantage Aero, Inc.	\$44,393	\$133,179	\$133,179	N/A – startup	\$843,091
Collectar	\$96,244	\$1,732,392	\$1,636,148	\$0	\$0
NeuWave Therapy	\$100,738	\$1,511,070	\$1,007,380	\$0	\$550,000
FoodUSA.com	\$0	\$0	\$0	\$500,000	\$0
Silicon Logic	\$94,003		\$3,760,120	\$3,500,000	\$4,500,000
BuySeasons, Inc.	\$0		\$0		
Automatan Holdings, LLC	\$44,549		\$1,291,921		
EraGen Biosciences, Inc.	\$72,500		\$2,030,000		
Felins Holding Company, Inc.	\$62,871		\$1,446,033		
House of Harley	\$40,171		\$1,446,156		
Instrument Development Corporation	\$45,000		\$2,655,000		
LS Research, LLC	\$73,056		\$1,972,512		
Mortgagebot, LLC	\$71,100		\$2,346,300		
NameProtect, Inc	\$62,315		\$1,994,080		
Opgen	\$85,738		\$171,476		
Ridgeview D & J, LLC	\$46,114		\$1,060,622		
TeraMedica, Inc.	\$103,621		\$2,279,662		
TLX Technologies, LLC	\$44,910		\$538,920		
Up-N-Atom, Inc.	\$60,250		\$361,500		
ZyStor Therapeutics, Inc. (f/k/a Symbiontics Acquisition Corporation)	\$86,500		\$0		

Job Creation for Wisconsin Small Businesses



ADDRESSING THE NEED FOR CAPITAL

**THE JOBS NOW FUND &
THE BADGER JOBS FUND**

Capital Gap / Valley of Death

ACCESS TO CAPITAL FOR WI SMALL BUSINESSES IS LIMITED

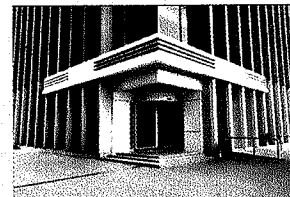


Small business ready to start-up, grow and create jobs, but needs capital.

Raising small amounts of capital (under \$3-\$5 mm) for small businesses is harder and more costly than raising large pools of capital.



Post angel / friends and family \$ and pre-traditional sources of capital = VALLEY OF DEATH for entrepreneurs

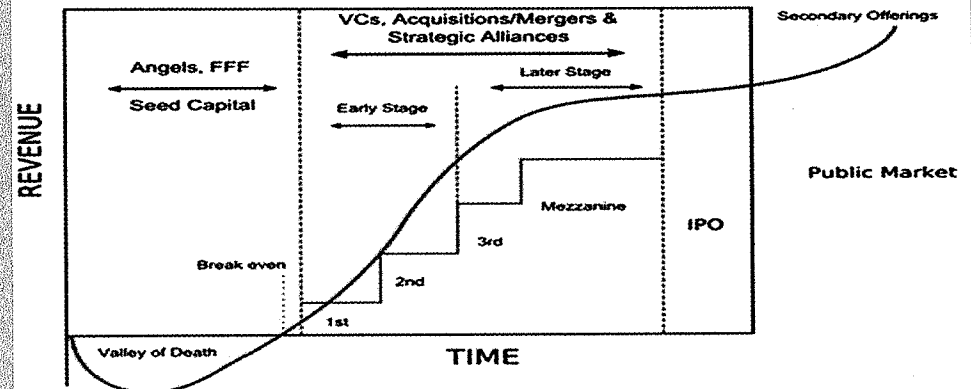


Traditional loans are not available for small businesses and traditional investment firms look for larger deals which provide larger returns for similar efforts.

Access to private capital allows businesses to expand, fosters job creation and increases the state's tax base.



Startup Financing Cycle



Small Business Job Creation = Jobs Now Fund & Badger Jobs Fund

JOBS NOW FUND – How it Works

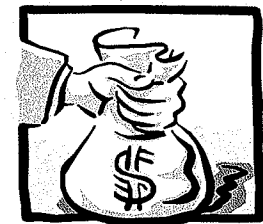


Legislature creates JNF to enable private investment funds to raise up to \$250 million pool of capital for small businesses

State certifies experienced investment firms to raise capital in exchange for tax credits
→ → →
(resulting economic impact and tax revenue of investments outpaces cost)

Wisconsin Venture Capital Authority

Delayed, long term credits are allocated



Certified firms raise capital from investors

50% of New Tax Revenue from Small businesses is captured to offset costs/remainder goes to general revenue

Wisconsin

State receives profits share payments from successful investments

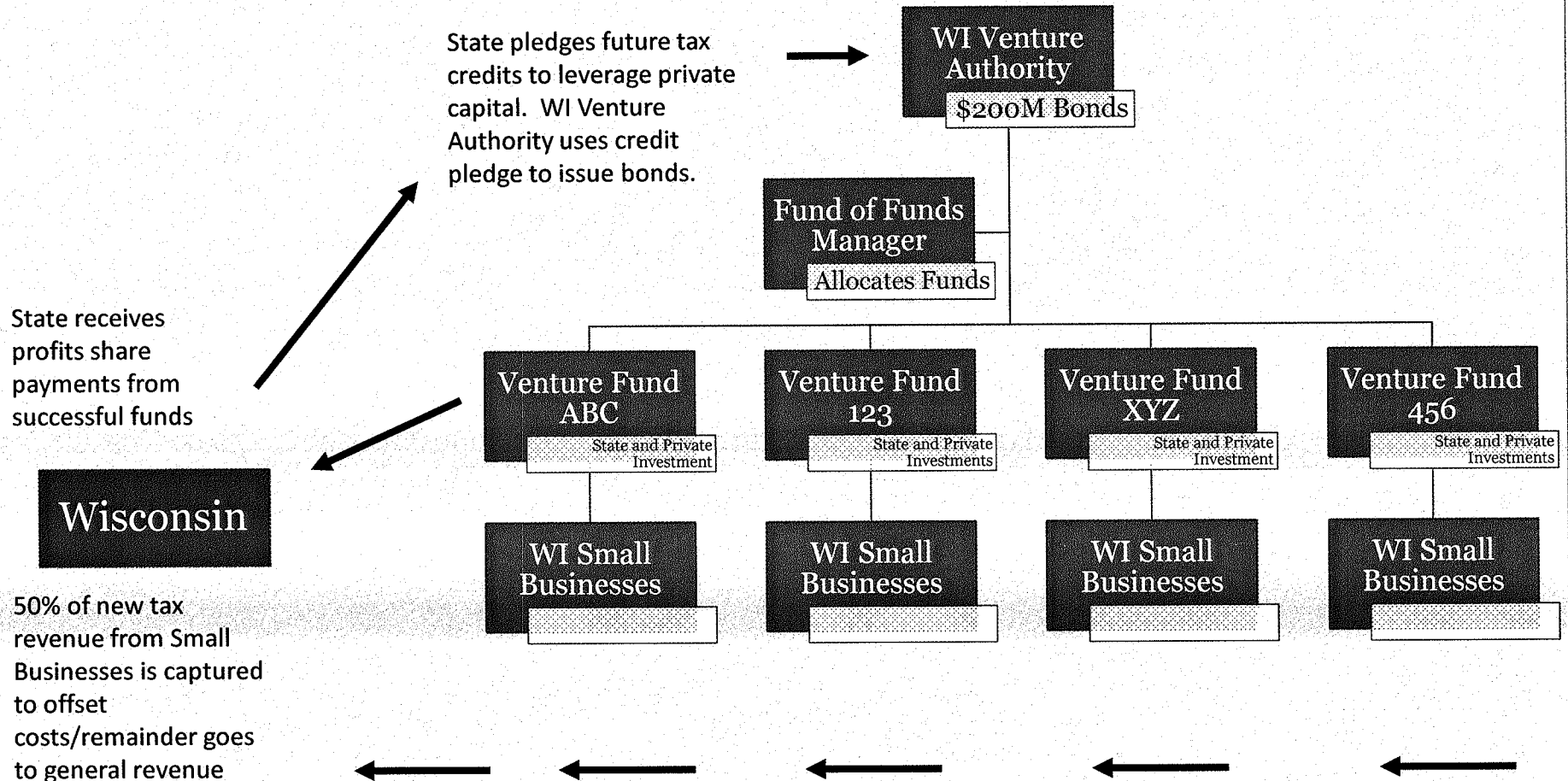
Public-private partnership allows Wisconsin to reap the benefits of a healthy small business community, more jobs, an increased tax base, more economic growth and diversity.



Small Businesses who pass due diligence receive investments from the certified private investment firms.

Small Business Job Creation = Jobs Now Fund & Badger Jobs Fund

BADGER JOBS FUND – How it Works

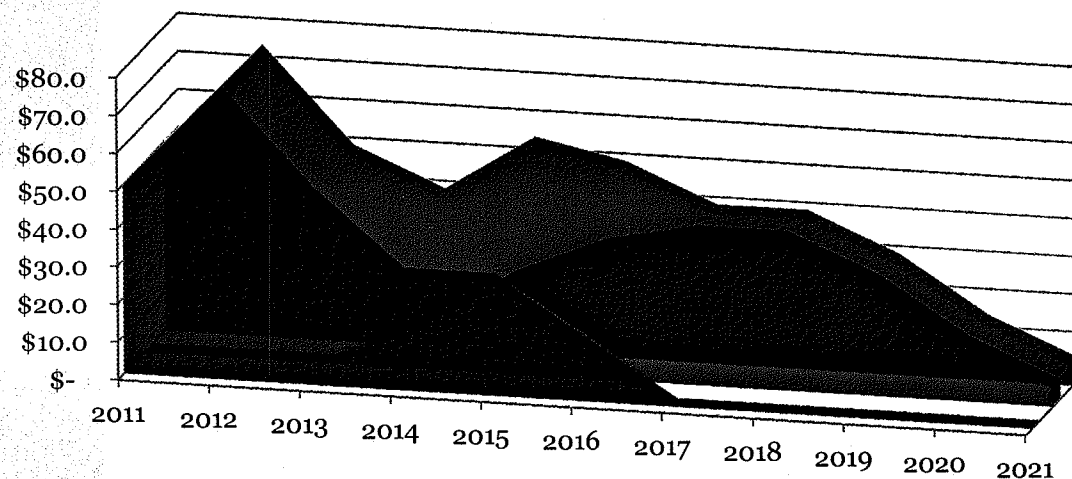


Small Business Job Creation = Jobs Now Fund & Badger Jobs Fund



TWO FUNDS COMBINED: Why?

Complimentary Timing: Joining the Jobs Now Fund and the Badger Fund models “smooths” yearly investment over a ten-year horizon. As the name implies, the Jobs Now Fund (BLUE) “front-loads” its investments, with the majority of the investing taking place within the first 5 years. The Badger Fund (RED) model takes time to start up, and tends to make most investments in the latter half of the ten-year period.



Jobs Now Fund

Included in Assembly Bill 129

Jeff Craver, J.D. LL.M.

Advantage Capital Partners

May 16, 2011

Jobs Now Fund

- \$250M for Small Business
- Money for existing and startup companies who will grow and create jobs
- Investment in venture funds from private sector
- \$125M invested prior to first tax credit being issued
- Program guaranteed to increase tax revenue between now and 2015
- No picking of winners and losers by the State or any Board or Authority

2010 Economic Impact Study by Professor Don Nichols

(Updated May 2011)

- Nichols studied 1999 CAPCO Program
 - In Brief: The program paid for itself
- By the 2009 Calendar Year the employment tax revenue alone is \$13.5M / Year
 - This does NOT account for corporate tax or indirect (multiplier) revenue
 - Average Salary of a CAPCO Small Business Job \$68,650
- Employment Tax revenue alone pays for the CAPCO program every 44 months

1999 CAPCO vs. Jobs Now Fund

A Different Model

Old Model

Table 36

CAPCO Insurance Premium Tax Credits Claimed

Tax Year	Amount Claimed
1999	\$ 4,816,700
2000	4,833,300
2001	4,833,300
2002	4,807,100
2003	4,789,600
2004	4,951,500
Total	\$29,031,500

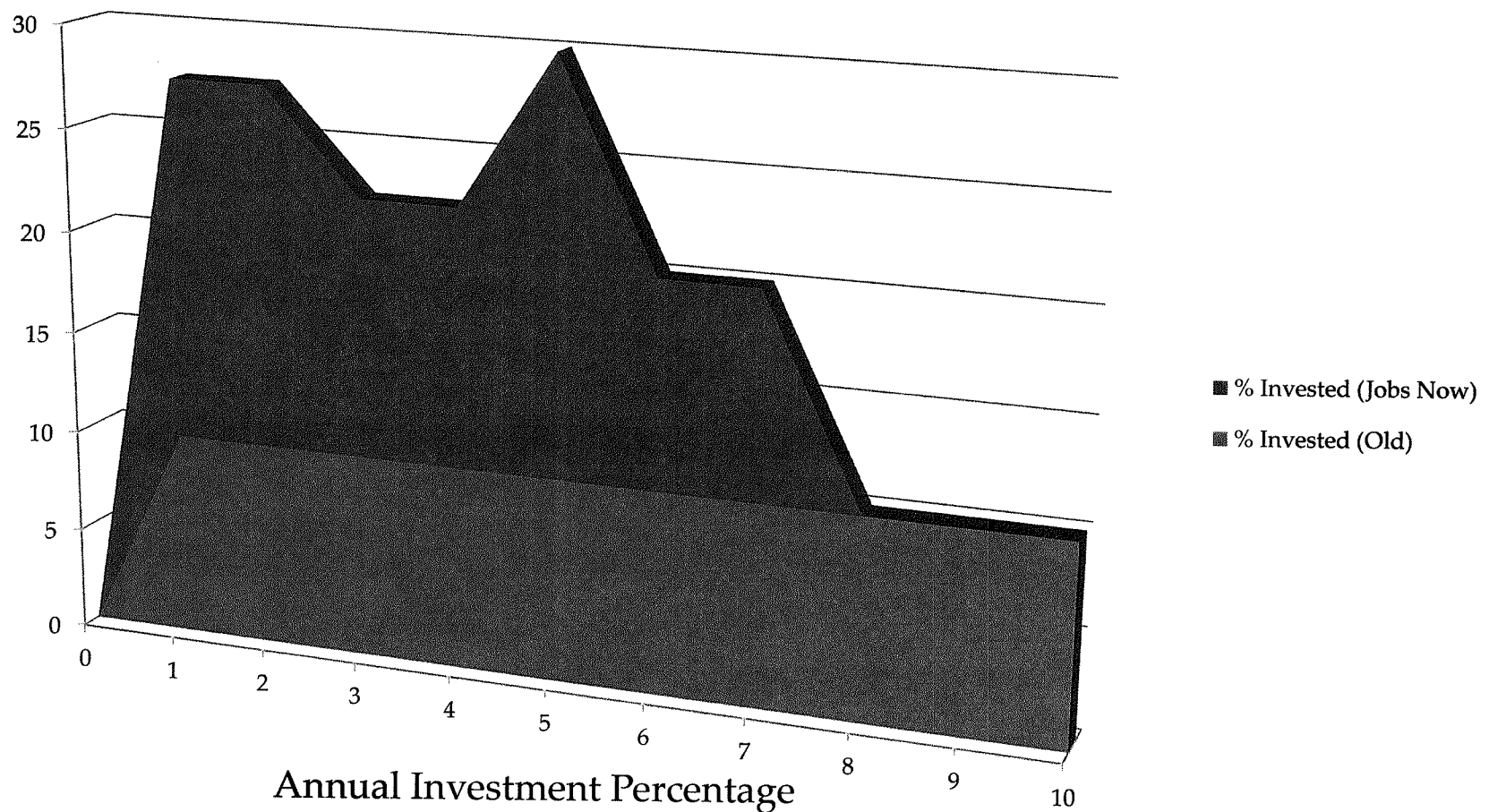
New Model

Table 36

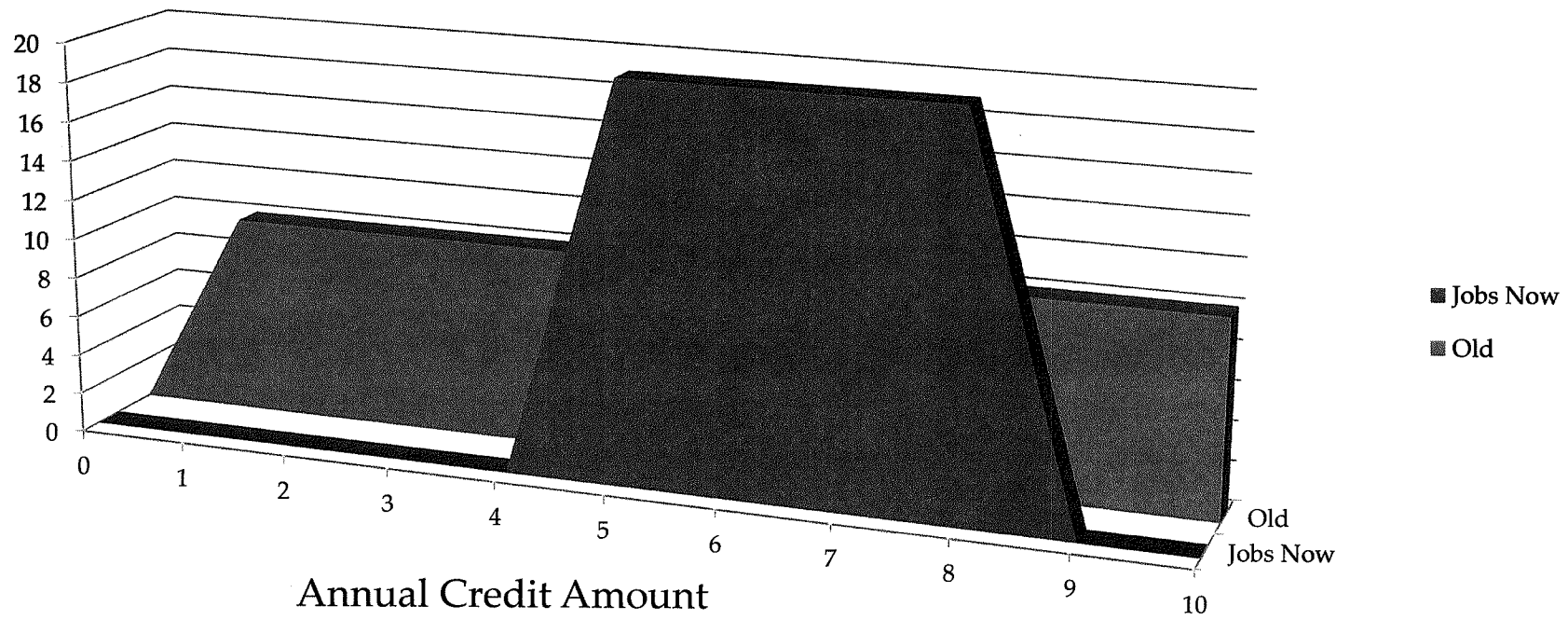
CAPCO Insurance Premium Tax Credits Claimed

Tax Year	Amount Claimed
1999	\$ 4, 816,700
2000	4, 833,300
2001	4, 833,300
2002	4, 807,100
2003	4,789,600
2004	4,951,500
Total	\$29, 031,500

Jobs Now: Accelerated Investment



Jobs Now: Delayed Credits



2006 Audit Concerns and Recommendations

Fixed in Jobs Now Fund

Concern/Recommendation	Fix
CAPCOs are not required to invest more than 50%	<i>Jobs Now Funds must invest:</i> 35% - YR 2 50% - YR 4 80% - YR 5 100% - YR 7
Management fees should be capped	<i>Job Now Fund fees capped at 2%</i> <i>-Fees are taken from investment proceeds, not the fund itself</i>
Strategies for investment should be implemented	-50% of all investments must be "early stage" -No more than 10% of any single investment can refinance debt

Key Parts of Job Now Fund

- State receives 20% profit share on investments
- Increased transparency with more thorough reporting
- 4 year delay before credits claimed
- 20% Credit/Yr in Yrs 5-8: Makes the Jobs Now Funds and their investors put more skin in the game
- Economic impact study of funds

ADVANTAGE

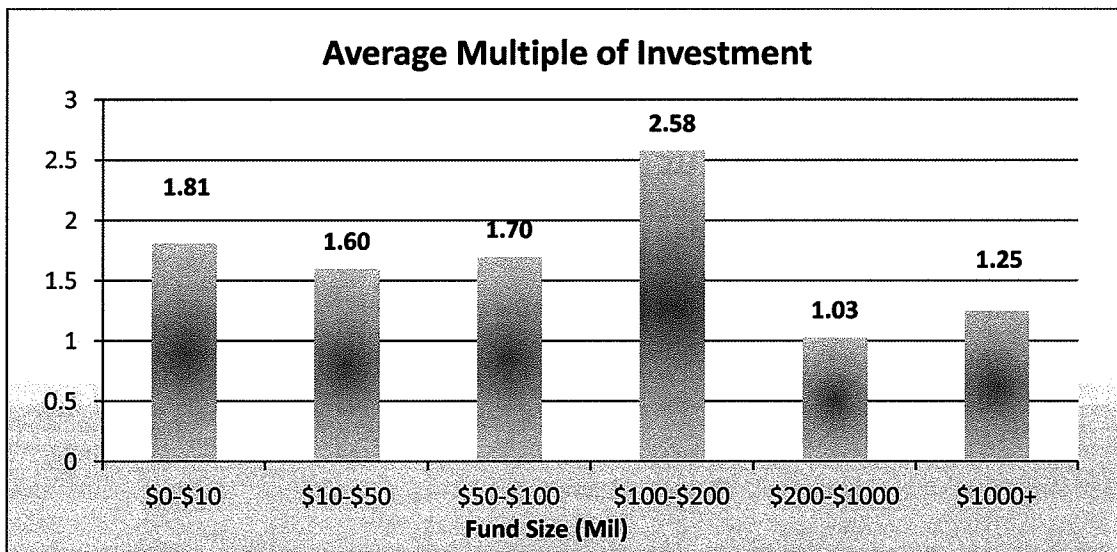
CAPITAL

PARTNERS

Jeff Craver
7733 Forsyth Blvd, Ste 1850
St. Louis, MO 63105
314-725-0800



The Silicon Valley Bank study shows that 80% of small funds are profitable compared with only 41% of large funds; and that small funds on average earn over a 50% return for the investors, while the average large fund earns less than 25%.



Wisconsin Department of Commerce: Certified Venture Capital Funds

Venture Fund	Date Certified
Avolte Venture Partners LP	2/17/2006
Baird Venture Partners I Limited Partnership	10/1/2005
Baird Venture Partners I (B) Limited Partnership	10/10/2005
BVP I Affiliates Fund Limited Partnership	10/10/2005
Capital Midwest Fund	6/3/2008
Capital Midwest Fund II, L.P.	11/9/2009
DaneVest Tech Fund I, LP	10/29/2007
DaneVest Tech Side Fund I, LLC	10/29/2007
Kegonsa Co-Invest Fund I, LLC	11/1/2006
Kegonsa Seed Fund I	2/25/2005
Knox, LLC	12/22/2010
New Capital Fund LP	1/31/2006
New Capital Co-Invest, LLC	10/22/2007
New Capital CoInvestment Fund II, LLC	7/15/2009
Omphalos Venture Partners, LLC	2/1/2011
Peak Ridge AgTech Fund LP	10/28/08
Phenomonelle Angels Fund I, LP	10/16/2006
Phenomonelle Angels Side Fund I, LLC	12/10/2007
Stark Opportunity Fund Two, LLC	12/20/2007
Tactics II – CDI Series B Investors II, LLC	3/29/2011
Tactics II Stem Cell Ventures LP	10/8/2008
Tactics II Stem Cell Ventures (QP) LP	10/8/2008
Tactics II Ventures LP	10/9/2008
Venture Investors Early Stage Fund IV Limited Partners	5/12/2006

Ed. Bloustein

Testimony on the Washington DC CAPCO Program

**Dr. Julia Sass Rubin
Edward J. Bloustein School of Planning and Public Policy,
Rutgers University
April 3, 2009**

Chairwoman Bowser, Chairman Brown and members of the council, thank you for the opportunity to appear before you to discuss the CAPCO program. My name is Julia Rubin and I am a professor at the Edward J. Bloustein School of Planning and Public Policy at Rutgers University. My research expertise is in developmental venture capital and lending, including the use of equity and debt investments for economic and community economic development. About a decade ago, I and my colleagues Professor David Barkley of Clemson University and Dr. Deborah Markley of the RUPRI Center for Rural Entrepreneurship first researched and wrote about the CAPCO program with funding from the US Department of Agriculture. I have been following the program since then and would like to share with you some of the reasons why I believe the program is both ineffective and extraordinarily expensive.

Today's hearing is taking place as a result of a DC Auditor's report that was very critical of the CAPCO program's implementation. I expect that you will hear a lot of testimony today from the CAPCOs disputing some of the numbers in the Auditor's report, in particular, the Auditor's finding that the program has cost \$76,000,000 to date. I believe the \$76,000,000 figure refers to the total expenditures reported by the CAPCOs to the auditor versus what the CAPCO program would ultimately cost the District. It is my understanding that the program would cost the district \$50,000,000 in lost tax revenue, which still represents quite a large expenditure. When it comes to CAPCOs, it also represents a very poor use of the taxpayers' money.

My primary concerns with this program are not related to the multiple issues that the Auditor found in terms of faulty implementation and oversight of the program. While those are significant and troubling, they can be addressed. What can not be fixed, however, are the fundamental structural flaws of this program, which make it a very, very poor deal for the taxpayers of the District of Columbia.

To understand what is wrong with the CAPCO program, it is helpful to review briefly how normal venture capital works and to compare that to how the CAPCO program works.

First, let's look at how normal venture capitalists and CAPCOs raise money

Normal venture capitalists are financial intermediaries. To be successful, they must first convince wealthy individuals, pension funds, corporations and foundations to trust the venture capitalists with their money, which the venture capitalists will use to make equity investments in privately held companies. The venture capitalists convince these investors to invest with them by demonstrating that they have experience making equity investments and exiting those investments in such a way as to make substantial profits for their investors.

Now, let's take a look at how CAPCOs raise money.

CAPCOs do not have to convince potential investors to trust them with their capital. They have to convince states to forego millions of dollars in tax revenue. They do so through extensive and highly effective lobbying. This lobbying is intended to convince the states that they are falling behind their neighboring states in providing capital to local entrepreneurs, and as a result, will suffer in terms of economic development and tax revenues.

Once a state passes CAPCO legislation, the CAPCOs take advantage of their existing relationships with a group of insurance companies to obtain commitments from those companies to invest in the state's program. Because of their existing relationships, the CAPCOs are able to obtain the insurance company commitments very quickly and thus to lock up all the tax credits among themselves. This precludes local venture capitalists from being able to compete for the tax credits. That is why the same handful of CAPCOs have been able to obtain almost all of the tax credits in the nine states that have passed the CAPCO program as well as in the District of Columbia.

Now let's look at how normal venture capitalists make money versus how the CAPCOs make money.

Normal venture capitalists receive an annual fee of 2 to 2.5 percent of capital under management to cover their operating expenses. Their primary compensation, however, comes from their being able to keep 20 percent of any profits they earn with their investments. That means that if they don't earn any profits, their income is limited to whatever they receive via the management fee, which accounts for only a small fraction of what a good venture capitalist earns.

Normal venture capitalists make money by investing equity dollars in companies that will grow rapidly and then exiting those investments by selling the companies to other, larger firms or by taking them public. Unless they do this successfully, not only will the venture capitalists not make money for their present investors and for themselves, they also will not be able to convince other investors to trust them with their capital in the future. As a result, normal venture capitalists have a tremendous incentive to select the companies in which they invest very wisely, to insure that they select companies that will grow rapidly. They also have an incentive to provide those companies with any assistance necessary to insure that they become an attractive acquisition for another firm or an attractive stock for the public markets. Otherwise, the venture capitalists cannot make money. By selecting, investing in and providing advice to rapidly growing firms, normal venture capitalists also help to create jobs and grow the economy. If they did not select firms with significant growth potential, the economic impact and job creation that resulted from their investments would be much smaller and potentially only short term.

In contrast, the primary profits for the CAPCOs come not from exiting carefully chosen investments in high growth companies but from decertifying from the CAPCO program once they have invested an amount equal to 100 percent of their tax credit allocation, as allowed under the CAPCO legislation. At that point in time, the CAPCOs can keep all of the taxpayer dollars that they did not lose through the investment process. As a result, the overriding incentive for the CAPCOs is not to make the kind of high quality equity investments that have enabled normal venture capitalists to help grow local economies. The incentive for the CAPCOs is to lend or invest the taxpayers' dollars so as to insure the fastest and safest possible repayment of those dollars.

Perhaps the most extreme example of the questionable quality of CAPCO investments is the Wilshire Capital CAPCO. Wilshire invested a total of \$6.4 million through the end of 2007. However, almost sixty percent of that total was invested in itself. Wilshire placed \$3.8 million in two

companies -- Community Financial Services and Newtek Insurance Agency -- that are owned by the same entity that owns the Wilshire CAPCO. Another \$1.9 million, equal to thirty percent of the total dollars that Wilshire invested, went to Mumin Productions, a theater production company that used the investment to stage one play and generated no ongoing jobs.

The final comparison I'd like to make is between how normal venture capitalists and CAPCOs repay their investors. This is by far the greatest drawback of the CAPCO model.

Normal Venture Capitalists have approximately ten years to make and exit their investments. By the end of that time span, normal venture capitalists must return to their investors all the capital originally provided by those investors as well as 80 percent of any profits that the venture capitalists have earned on that capital. As I indicated earlier, the other 20 percent of any profits earned the venture capitalists can keep for themselves.

In contrast, CAPCOs return almost none of the investment capital they receive from their equity investors -- the taxpayers. Only in the highly unlikely scenario that the CAPCOs generate significant financial returns on their investments, exceeding a 15 percent internal rate of return, does the District of Columbia stand to receive a tiny fraction of the profits.

I think the best way to demonstrate this difference in returns to investors between normal venture capital and CAPCOs is to look at a hypothetical scenario in which the District of Columbia invested \$50,000,000 over four years in three normal venture capital funds versus in three CAPCOs. For purposes of comparison, I have assumed a typical ten year venture capital investment and exit horizon for both normal venture capitalists and CAPCOs. I have also assumed that both the normal venture capitalists and the CAPCOs earn a 20 percent internal rate of return on their investments.

Were that to happen, the normal venture capital funds would return the District's \$50,000,000 investment. The District would also receive 80 percent of the profits generated by those investments, which in this case would be equal to \$69,600,000, for a total return to the District of \$119,600,000 on its \$50,000,000 investment. If the three CAPCOs earned the same 20 percent internal rate of return, they would return none of the District's \$50,000,000 investment. They would, however, return \$4,500,000 of the profits, for a total return to the District of \$4,500,000 on its \$50,000,000 investment in the CAPCOs. In comparison, the CAPCOs would end up with \$132,500,000 in profits. If the CAPCOs generated an internal rate of return of 15 percent or less, they would get to keep 100 percent of the money and the District would receive absolutely nothing back from its \$50,000,000 investment.

Please keep in mind that any benefits from venture capital in the form of jobs and tax revenue generated would be at least as great if the city invested in a normal venture capital fund vs. giving the money to the CAPCOs. In fact, the benefits would be much greater because as I pointed out earlier, normal venture capitalists have every incentive to make good investments that generate economic growth and jobs. Otherwise, they do not make any money.

CAPCOs on the other hand, do not have an incentive to invest for maximum economic growth and jobs. Instead, their incentives are to loan or invest their allocation to insure the quickest possible repayment, so they can decertify the taxpayers' money and keep it as profit. Again, **to make money, the CAPCOs do not need to make investments that lead to jobs or growth. They just need to find businesses that will give the money back to the CAPCOs as quickly as possible.**

That is the reason why the IRS immediately recognizes as income to the CAPCOs any funds allocated to them by a state (rather than waiting until the CAPCOs make investments and decertify). The investments are of secondary importance -- simply something that the CAPCOs have to do in order to keep the taxpayers' money

In addition to promising that the CAPCO program would make long-term equity investments in District businesses and bring economic development and job creation to the District, the CAPCO proponents also promised that the program would create and foster a local venture capital infrastructure within the District.

But there is absolutely no evidence that CAPCOs help create and foster a local venture capital infrastructure. Louisiana, where the CAPCO program originated, spent a total of \$631,000,000 on the program from 1989 through 1999. After spending all that money on CAPCOs, Louisiana received less than one tenth of one percent of the venture capital dollars invested in the entire United States in each of the following three years.¹ This is hardly evidence of a vibrant venture capital industry.

Not only does the CAPCO program not help create and foster a local venture capital infrastructure, there is good reason to believe it may actually hurt the local venture capital industry. As I mentioned before, the tax credits allocated through the CAPCO program go almost entirely to a handful of organizations, including Advantage, Enhanced, Wilshire and a couple of others, that travel from state to state lobbying for the program. These organizations have existing relationships with the insurance industry that virtually preclude any other venture capital firms from obtaining access to the tax credits. Because the CAPCOs have to invest the funds quickly and with less concern for the quality of those investments, they tend to flood the market, increasing the prices that other venture capitalists have to pay for their investments. In this way, the CAPCOs may actually hamper the performance and growth of a local venture capital industry.

In summary:

- The overriding incentive for the CAPCOs is not to make the kind of high quality equity investments that have enabled normal venture capitalists to help grow local economies. The incentive for the CAPCOs is to lend or invest the taxpayers' dollars as quickly as possible, so that the CAPCOs can decertify and keep those dollars as profits.
- Despite the CAPCOs claims, there is absolutely no evidence that CAPCOs help create and foster a local venture capital infrastructure. In fact, there is good reason to believe that the CAPCO program may actually hurt the local venture capital industry.
- Any benefits from venture capital in the form of jobs and tax revenue generated are likely to be much greater if the District invests in normal venture capital funds vs. giving the money to the CAPCOs.
- If the District invested \$50,000,000 in normal venture capital funds that earned a 20 percent internal rate of return, the District would receive back \$119,600,000. If the District gave the \$50,000,000 to the CAPCOs and they generated the same 20 percent internal rate of return, the District would receive back \$4,500,000 while the CAPCOs would earn \$132,500,000 in profits.

It is for these reasons that I began my testimony today by saying that **CAPCOs are an extraordinarily expensive and inefficient way to increase access to capital in the District. I fully believe that the District would get better results if it simply gave a million dollars each to fifty entrepreneurs through a raffle.**

¹ Source: PriceWaterhouseCoopers MoneyTree Survey of Venture Capital

Finally, I would like to share with you how the CAPCO program has fared in some of the nine states that have adopted it to date.

Louisiana, which originated the CAPCO program, commissioned a study conducted by its Department of Economic Development and a leading CPA firm. This study found that the CAPCO program "is expensive and inefficient to the State" and that "the greatest and most immediate beneficiaries of the CAPCO program are the CAPCO companies and their owners."

The study confirmed that, unlike other venture capital models, CAPCOs are allowed to profit immediately, regardless of the success of the companies in which they are investing.

Louisiana Senate President John Hainkel Jr., who helped create the original 1983 CAPCO, legislation said: "It hadn't really helped us worth a damn, quite frankly."

Mike Williams of the Louisiana Department of Economic Development told a reporter investigating the program, "If you're going to set up something, look at what we did and do the exact opposite."

Colorado originally passed the CAPCO legislation in 2001, allocating a total of \$200,000,000 to the program. The state subsequently successfully diverted \$100,000,000 of that total away from the program.

A legislative audit in Colorado noted that "CAPCO programs are a most inefficient means for the state to raise venture capital" and questioned whether any jobs created were attributable solely to the CAPCO program.

Bob Lee, the head of Colorado's Office of Economic Development, which administered the program, told a legislative committee that "I think this state would be hard pressed to design a program that cost the taxpayers more and delivered less."

Then Colorado State Treasurer Mike Coffman, who is now a Congressman, said "It's a scam...I don't think there's anyone who thinks this is a good deal for Colorado, with the exception of those companies who lined their own pockets."

Florida originally passed CAPCO legislation in 1998, allocating \$150,000,000 to the program. According to a 2007 Florida government report, the most current available, the program has created a net gain of 20 jobs in the nine years it has been in effect. That report also found that "Despite legislative intent that the CAPCOs assist the State's economically distressed areas, there have been no investments reported in the enterprise zones, urban high crime areas, rural job tax credit counties, or nationally recognized historic districts. Also, despite its eligibility being specified in statute, there have also been no investments in the Florida Black Business Investment Board."

Missouri allocated \$140,000,000 to the CAPCO program in 1996. A subsequent state study found 66 percent of the funds generated by the venture capital program there "were not being used for the intended purposes of providing capital for start-up or expanding Missouri businesses."

A 2004 audit by then Missouri State Auditor Claire McCaskill, who is now a United States Senator, concluded that "The Missouri Certified Capital Company Tax Credit program is an inefficient and ineffective tax credit program" and recommended that "the Department of Economic Development

and the General Assembly let the Missouri Certified Capital Company Tax Credit program expire without authorizing any additional tax credits."

Texas allocated \$200,000,000 to the CAPCO program, starting in 2006. The latest report from the Texas Comptroller of Public Accounts indicates that after investing a total of more than \$22,000,000 in Texas businesses, the CAPCOs had generated a total of 23 jobs, or roughly a million dollars per job created.

In addition to the nine states that have CAPCO programs, the legislation was rejected in at least 12 other states, including Nevada, Iowa, Washington State, Vermont, North Carolina, Rhode Island, South Carolina, Utah, Arizona, Illinois, Kansas, and Michigan.

In conclusion, the CAPCO program is an inordinately expensive and ineffective way to bring patient capital to the District's small businesses. My recommendation, like that of the District's Auditor and of states such as Colorado and Florida that have understood what a terrible deal the CAPCO program is for the taxpayers, is to terminate the program as soon as possible and to do everything you can not to allocate the 50,000,000 in taxpayer dollars to the CAPCOs.

Thank you again for inviting me to testify this morning. I would be happy to answer any questions you might have.

Capital Subsidy Bill Raked

\$75 million deal 'scam,' says Colorado critic

Milwaukee Journal Sentinel, 12/21/2003

Bruce Murphy

Critics from across the country are assailing the state Legislature's proposed bill to provide \$75 million in tax subsidies to venture capital investment firms.

"It's a crummy deal for the taxpayers," said Julia Sass Rubin, a Rutgers University professor of public policy, who has spent five years researching these kind of subsidies and helped defeat a similar proposal in Rhode Island.

"It's a scam," said Colorado state Treasurer Mike Coffman, speaking of a similar bill passed in Colorado. "I don't think there's anyone who thinks this is a good deal for Colorado, with the exception of those companies who lined their own pockets."

George Lipper, who studied similar legislation for the Iowa Department of Economic Development and helped defeat the bill there, called it a **"raid on state treasuries."**

The certified capital companies that have benefited - called CAPCOs - have gained more than \$1.6 billion in subsidies from seven states, including Wisconsin, whose 1998 law provided them with \$50 million in tax credits. The new bill would add another \$75 million in funding.

State Sen. Ted Kanavas (R-Brookfield), one of the bill's sponsors, admitted the name had been changed to the Wisconsin Capital Companies Program, or WISCAP, because of the national controversy surrounding the capital firms. Studies done in other states have offered very negative assessments of the capital programs.

Kanavas and Commerce Secretary Cory Nettles, who worked closely to craft the legislation, both said they opposed the original venture capital firms and have greatly modified and improved the concept behind Wisconsin's 1998 law.

But Rubin, who reviewed the Wisconsin bill, scoffed at this.

"It's very minimally changed, only cosmetically," she said.

Low rate of return

Normally, experts say, a venture capital fund attracts money from investors and then returns the principal plus 70% to 80% of the profits to the investors. Under that model, Wisconsin would get back its entire \$50 million investment plus most of the profits from its 1998 allocation. Instead, the state got none of the principal or profits.

Under the new bill, Wisconsin would still lose all the principal it invests but would get a maximum of 30% of any profits earned.

Rubin estimated that over 10 years, the venture capital companies could take the \$75 million tax subsidy and build it into a fund valued at \$150 million. They could pocket \$127.5 million, while the state would get back a maximum of \$22.5 million, effectively suffering a huge loss on its investment, she said.

Department of Commerce spokesman Tony Hozeny disputed this. He said the profits would likely be much lower, meaning the venture capital companies would pocket only about \$92.5 million, while the state would get \$7.5 million. Under that scenario, however, the state would lose even more money on its investment.

" Rubin said either scenario completely distorts the normal market model, essentially handing a gift of "pure profit" to venture capital companies.

Rep. David Ward (R-Fort Atkinson), a co-sponsor of the legislation, said venture capital firms need such a subsidy because they would be required to invest only in Wisconsin companies, which could lower the return. John Neis of Venture Investors, which manages the state allocation received by Advantage Capital, said there is considerable risk for his company.

But Rubin said many venture capital companies would be "thrilled" to invest the state's money under these conditions and still return the principal and most of the profits back to the state.

She pointed to the federal "New Markets Tax Credit" program, which provides a tax credit of up to 39% over seven years for any equity investment in companies in distressed areas. The program is "oversubscribed," she said, with more investment funds interested in participating than are needed.

Panned in several states

Proponents of the venture capital program have capitalized on the desire of many states to transform themselves into high-tech powerhouses. Using tax subsidies, the venture capital firms are supposed to invest in start-up companies with high job growth potential.

But studies of Florida and New York, which have allocated a combined \$580 million, show that companies in which they invested actually lost jobs.

The concept was originated in Louisiana, whose legislature spent \$631 million on the program from 1989 to 1999. A 1999 study commissioned by the state called the program "expensive and inefficient" and said "the greatest and most immediate beneficiaries of the CAPCO program are CAPCO companies and their owners."

A state study in Missouri found 66% of the funds generated by the venture capital program there "were not being used for the intended purposes of providing capital for start-up or expanding Missouri businesses."

A legislative audit in Colorado noted that "CAPCO programs are a most inefficient means for the state to raise venture capital" and questioned whether any jobs created were attributable solely to that financing.

In Wisconsin, according to an analysis by the state audit bureau, the \$50 million program had generated just 157 jobs by March, more than three years after the allocations began.

Certified capital firms' representatives have defended themselves in Wisconsin and other states by arguing the spending and job figures are only midterm results for a program that will ultimately have a bigger payoff.

Lobbying and donations

The Colorado audit also noted the capital firms had spent \$471,503 on lobbyists in Colorado, and \$85,000 of it came from the state program. In addition, said Coffman, the firms' legal costs came out of the state allocation.

In Wisconsin, 10 lobbyists are working for companies and organizations pushing for the Wisconsin Capital Companies Program bill.

Banc One, whose subsidiary company Stonehenge Capital is one of the three companies funded by the state, has donated some \$210,000 in campaign contributions to Wisconsin Assembly and Senate candidates in the last 10 years, according to an analysis by the Wisconsin Democracy Campaign. Banc One, however, lobbies for many issues besides CAPCOs.

In addition, Stonehenge has donated \$2,500, and Wilshire Investors, another capital company, has donated \$2,000.

State-supported capital firms have been aggressive in pushing for funding. In Florida, Advantage Capital Partners, a beneficiary of state capital funding, threatened to sue Gov. Jeb Bush if he delayed it.

One prominent critic in another state said he could no longer comment publicly because he had been threatened with a lawsuit by venture capital interests.

Carter Dunkin, a senior vice president with Advantage Capital, said the state-supported capital industry supported public discussion of the merits of these programs but added that he knew of one incident where a letter discussing a possible lawsuit was sent to "an individual who spread information that was defamatory."

Rubin said her reputation was attacked when she testified against legislation in Rhode Island.

"Because I was testifying against the CAPCO bill, the CAPCO representatives were telling legislators or implying I was getting paid by other companies, thereby smearing my reputation as an academic," she said.

But Dunkin said "we don't know of anyone making such aspersions."

Statement on AB 129 and SB 94 May 16th, 2011

Senate Committee on Economic Development and Veterans and Military Affairs

Assembly Committee on Jobs, Economy, and Small Business

This statement is a personal statement from Thomas R. Hefty. This statement relates to the Jobs Now Fund, a proposal for a new CAPCO program, which is part of AB 129 and SB 94. Mr. Hefty served on economic development commissions for both Republican and Democratic governors, most recently serving as co-chair of Governor Doyle's Economic Growth Council. He co-authored three economic development articles in 2009 and 2010, and co-authored the Be Bold Wisconsin Prosperity Strategy report in 2010 as well as serving on the executive committee for the Deloitte Be Bold Wisconsin 2010 study of economic development strategies. For seventeen years he served as the chief executive of a major Wisconsin headquartered insurer and previously worked at insurers in Madison and Stevens Point and served as an insurance regulator under Governor Dreyfus.

Statement in Opposition to AB 129 and SB 94

The Jobs Now Fund proposal is the largest special interest Wisconsin tax cut in history masquerading as an economic development initiative. It is a \$200 million tax cut at a time when the Wisconsin budget requires cuts in many important programs. It worsens the structural deficit that the governor and legislature have been seeking to eliminate.

The Jobs Now Fund is a cute name for a CAPCO fund, most frequently described by independent national experts as a "scam." CAPCO's are not cost effective for job creation or for leveraging venture capital dollars. A CAPCO was tried and failed in Wisconsin in 1998 and similar proposals have been rejected in neighboring states. The proposal discriminates in favor of large corporate

investors at the expense of entrepreneurs and angel investors. The legislation also disadvantages the largest jobs sector in the Wisconsin insurance industry, while favoring a handful of life insurers and out-of state insurance companies.

CAPCO's were tried and failed in Wisconsin

In 1998 the Wisconsin legislature adopted a \$50 million CAPCO, one of the first in the country. It was intended to stimulate venture capital and job growth. Although there were a few individual investments which were successful, which the proponents talk about repeatedly, the overall program was a failure. A simple review of Wisconsin's ranking on venture capital shows that the \$50 million 1998 CAPCO tax cut was wasted. There was no long term change in the national rankings following the CAPCO tax cut. The Wisconsin Legislative Audit Bureau reviewed and criticized the program. The extension of the CAPCO program in 2004 was blocked by Governor Doyle and a bi-partisan group of legislators.

In 2010, the Minnesota legislature conducted a comprehensive study, "Tax Incentives and Venture Capital." The study concluded, "The Wisconsin CAPCO credit had little or no effect, likely displacing venture capital financing that would otherwise have occurred." Even the CAPCO industry's own self-promoting study found that CAPCO's were not cost effective for job creation—costing \$40,000 in lost taxes for each job created after ten years. That study looked at data on only two of the three Wisconsin's CAPCO's. The third failed Wisconsin CAPCO manager refused to provide data for the study.

Studies of CAPCO's in other states, using comprehensive data measured on the standard three to five year time horizon for job creation, continue to find CAPCO costs to the taxpayer of \$100,000 to \$200,000 per job created. That is far more costly than traditional successful economic development strategies.

The best thing that has been said about CAPCO's was reported by the State Science and Technology Institute. It called CAPCO's "a complicated and controversial tool." Despite the complexity and controversy, this legislature is proposing to rush the legislation thru quickly.

CAPCO'S have been rejected by the LAB, neighboring states, and bi-partisan Wisconsin legislators

The same companies and lobbyists advocating for 2011 CAPCO's have a track record which deserves careful examination. They pushed for the 1998 \$50 million CAPCO tax cut. That program was correctly criticized by the Legislative Audit Bureau report in 2006—eight years after the original CAPCO plan. CAPCO proponents now say that the new complex proposal cures the original failures. Those same CAPCO's have never disclosed the identity of the companies which were the ultimate beneficiaries of the 1998 \$50 million tax cut, nor have they disclosed the fees charged for administering the multi-layered CAPCO program.

CAPCO's have consistently been rejected in neighboring states. Recognizing the CAPCO failures, the Iowa governor vetoed a similar CAPCO program which was lobbied thru the Iowa legislature. The Minnesota legislature rejected a CAPCO program in 2010 following a comprehensive study. Both Iowa and Minnesota are recognized as having strong economic development programs, and both states without CAPCO's achieved higher job growth and better per capita income growth than Wisconsin.

There is an old management saying, "The wise learn from the mistakes of others, fools learn from their own." Iowa and Minnesota learned from the CAPCO

mistake of Wisconsin. Both states rejected CAPCO's. With the pending CAPCO legislation, it appears that Wisconsin has failed to learn even from its own mistakes.

The CAPCO legislation discriminates against entrepreneurs and angel investors

Under the proposed bill, a small group of favored corporate investors receive an 80% tax credit for CAPCO's. In comparison, entrepreneurs and angel investors receive only a 25% tax credit for their efforts. Entrepreneurs and angel investors make high risk early stage investments. According to the 2010 Minnesota study, Wisconsin CAPCO's make later stage, and safer investments.

What is the rationale for discriminating against entrepreneurs and angel investors? The 25% angel tax credit is widely described as a success. Minnesota copied the Wisconsin angel tax credit. Minnesota rejected the CAPCO idea.

The CAPCO legislation damages employment opportunities in the Wisconsin Insurance industry

Insurance by its nature is complex. Insurance taxes are even more complex. For details on insurance taxation, see the annual Revenue Department summary of tax exemption devices or see "Interstate Variations in Effective Tax Rates for Insurance Premium Taxes" in the papers of the 6th Annual Insurance Tax Conference (p143). The dual Wisconsin insurance tax structure is unique among the 50 states. As a result, CAPCO's in Wisconsin uniquely jeopardize Wisconsin insurance jobs.

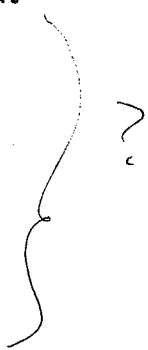
For decades, the Wisconsin insurance tax code was a successful balance of raising revenue and creating Wisconsin jobs. Life insurers and all out of state companies pay a premium tax, the tax which is cut by the CAPCO legislation. Wisconsin auto, homeowners, workers compensation, and health insurers pay a franchise tax—a

corporate income tax. That tax structure admittedly provided a small advantage to Wisconsin based insurers and stimulated Wisconsin job growth in the insurance industry for forty years.

Instead of favoring Wisconsin insurers and Wisconsin jobs, the CAPCO legislation benefits a handful of Wisconsin life insurers and all out of state companies. The CAPCO legislation now creates a competitive disadvantage for most Wisconsin based insurers.

The 2010 Deloitte Be Bold study of Wisconsin competitiveness looked in depth at the Wisconsin insurance industry. The Wisconsin industry has declined since 1998, partly due to the growing tax inequity. Since 1998, the year of CAPCO's adoption, Wisconsin has lost one-half of the major Wisconsin headquartered insurers. Over 5,000 jobs have been lost---all in the portion of the industry disadvantaged by CAPCO's. There were other regulatory changes which contributed to that job loss, but the CAPCO impact cannot be discounted. Again, by comparison, Iowa, which did not adopt CAPCO tax cuts, gained insurance employment at a time when Wisconsin was losing insurance jobs.

The 1998 CAPCO legislation was a \$50 million tax cut. The proposed 2011 tax cut is four times that amount, \$200 million. The property and casualty and health insurance companies in Green Bay, Sheboygan, Fond du Lac, Neenah, Appleton, New Berlin, Madison and Stevens Point will receive no benefit from this legislation. Who will receive the CAPCO tax cut---a select number of life insurance companies and all out of state insurance companies. Rather than creating "jobs now," this legislation will drive additional insurance jobs to other states.



CAPCO's have been rejected by all independent economic development studies

There is great irony in the naming of the CAPCO legislation as "the jobs now fund." The legislature in 2009 conducted a number listening sessions on economic development and a comprehensive report was prepared. That 2009 Wisconsin legislative study was called the "jobs now task force report." The Jobs Now Task Force did not even mention a CAPCO proposal, nor according to the record were CAPCO's recommended at any of the listening sessions. Similarly, CAPCO's were not recommended by the Deloitte Be Bold 2010 study or the Wisconsin Prosperity Strategy report.

In comparison to the CAPCO proposal, the bonding proposal in the Badger Jobs Fund received more serious study. The best model for the Badger Jobs Fund is the Ohio Third Frontier Fund. The Ohio model fund has been well studied by independent academic researchers. The voters of Ohio approved the original Third Frontier Fund and in 2010 more than 60% of the Ohio voters approved an expansion of bonding for Ohio economic development.

In 2010 representatives of the Ohio Third Frontier Fund made presentations to the Greater Milwaukee Committee, the UW sponsored 2010 Economic Summits, and to the Milwaukee 7 regional economic development group. The Third Frontier Fund representatives also appeared before the editorial board of the Milwaukee Journal Sentinel. The CAPCO proponents failed to offer any similar public debate or present any data to support the \$200 million tax cut. CAPCO's have never been subject to voter approval in any state. The CAPCO proponents prefer back room lobbying; quick public hearings; and a rushed legislative agenda to careful public analysis and debate.

Despite the lack of serious study, the legislative sponsors introduced CAPCO legislation and hurriedly scheduled a hearing on the proposal. This is a classic

sign of poor public policy---a hastily scheduled hearing; a cute fancy name for the legislation; and tying the CAPCO scam to the stronger proposal for bonding for economic development---as if the two were an integrated package...

The proposed legislation creates an unneeded fourth economic development agency.

The one consistent conclusion from all of the economic development studies has been the need to simplify and streamline the economic development efforts and the tax code. The Legislative Audit Bureau recommended consolidating and focusing the 154 different economic development programs administered by 23 different agencies and commissions. The Jobs Now Legislative Task Force said "simplify and streamline the tax code." The Be Bold Wisconsin Prosperity Strategy report called for the creation of a streamlined Economic Development Corporation, which was authorized in the special session on jobs called by Governor Walker.

Wisconsin already has two economic development authorities with the power to do bonding. The Wisconsin Housing and Economic Development Authority was created first. In 2010 the legislature created another economic development authority, named the Public Finance Authority. Now in 2011 these bills propose to create a fourth economic development agency. This is contrary to common sense; to the recommendation of every economic development study; and to the very purpose of the Wisconsin Economic Development Corporation, created only three months ago.

There are many other cost effective ways to create venture capital.

Bonding for economic development is a cost effective way to enhance venture capital and create jobs. The 25% angel tax credit is three times as cost effective as the proposed 80% tax credit for corporate CAPCO sponsors.

There are other cost effective alternatives. The Wisconsin Strategic Development Commission Report recommended one simple solution—a targeted tax credit for the State of Wisconsin Investment Board (SWIB). The SWIB pension fund is one of the largest in America with over \$80 billion in assets. Yet its allocation to venture capital investing is among the lowest in America among public pension funds. The reason given is the potential risk in venture capital investing. Rather than give a corporate tax cut of \$200 million—calculated as an 80% credit, why not consider a much smaller credit for SWIB. That would cost the taxpayers far less; create the same venture capital; and provide added security for the public pension program. It should be noted that CAPCO's are supported by well financed lobbying. There is, unfortunately, no similar lobbying for cost effective SWIB programs—or apparently for saving vital public programs which will be jeopardized by the \$200 million CAPCO tax cut.

CONCLUSION

The CAPCO proposal contained in recently published AB 129 and SB 94 is the largest special purpose corporate tax cut in Wisconsin history. It is a tax cut benefiting only a few companies, but it is camouflaged as an economic development program.

A 2009 article, which I co-authored, was titled "Wisconsin Flunks Its Economic Test." That conclusion reflected Wisconsin's bottom quartile ranking in job growth and personal income growth during the past decade. This bill not only flunks an economic development test, it reflects a legislature which has not even bothered to do its homework.

In commenting on the 2009 economic development article, then candidate Scott Walker made an important statement, "Voters know that Wisconsin is going in the wrong direction.....They want a government that puts the needs of citizens first and places public safety and the education of its children above the needs of special interests."

The failed economic policy of the past decade included CAPCO's. Now CAPCO's are back, pushed again by special interests. Wisconsin doesn't need a \$200 million CAPCO corporate tax cuts intended for only a few companies at a time when vital public programs are being cut.

The two bills, AB 129 and SB 94, should be rejected.

Entrepreneur/Investor
Michael S. Harper
6809 N. Senile Ave
Glendale, WI

Wisconsin Venture Authority- Senate Bill 94, 2011

"Production and consumption of energy is the most fundamental opportunity for job growth." and the biggest and most effective social program is providing a job"- recent statements of Former President Bill Clinton, in conversation with Maria Bartiromo on CNBC. It is with this in mind that I implore the Legislature of State Wisconsin hear the following comments and with prudence apply reason in incorporation of the items listed herein. ^{Wisconsin} ~~This is a critical area of opportunity for our local economy, as~~

~~we have added several companies in the cleantech industry.~~

^{launched} ~~The Wisconsin Venture Authority and corresponding financial and economic resources proposed are~~ ^{→ A much needed area of continued investment and policy} ~~essential to growth of the State GDP. We ascribe to the ideology that investors produce jobs- and a~~ ^{legislative} ~~climate that promotes innovation and opportunities for wealth are ripe for fast growing companies.~~ ^{that supports advancing low-carbon technologies and mfg.}

It is necessary to clearly define the corporate powers and the business of the Wisconsin Venture Authority. ^{→ "Non-Sophisticated, taxpayer concerns"}

Each member of the board as well as the executive director and fund manager shall be subject to state ethics laws. Need to avoid the appearance of "cronyism" as this might be considered reckless and irresponsible of the Legislature to vest as many powers to the Governor. It can prove ~~to be~~ catastrophic and would substantially impute tax on taxpayers in the event of default, imprudence and/or improper dealing. Additionally, governance and transparency will be paramount and should occur at a higher frequency in earlier years to ensure quality management and oversight.

Propose reducing the number of appointments of the Governor from four to three and the seat that is eliminated from his powers be permanently endued to a coalition/consortium of ethnic minority chambers of commerce, who would develop bylaws for a rotating appointment by members and would ensure representation of diverse interest as well as provide broader depth to pool of investors and investments.

In years 1-3 reporting requirements shall be monthly - although it may appear onerous, the frequency will allow the board to be more adaptive and responsive and provide a greater assurance of success via active management of the investment. In ~~years four~~ and five, the period of first available distribution there will be enhanced probability of successful investment harvest. This is excellent stewardship principle of the public trust.

Show projected revenues and corresponding scenario analysis with venture-based probabilistic outcome considerations? Key to understand the inherent riskiness of investment and ratio of "successful harvest: investment". Discuss and explain

Clearly define the withholding tax formula-this will provide a framework for expected returns of portfolio companies and provide a forecast of minimum revenues required to meet the debt service required on indebtedness.

Developing capacity in
- water
- medical devices
- Health IT

Easy to bet
when it's
the
houses
money!

Comparable experience ~~requirement~~ provision and consideration for "emerging managers" program for managers with less than five years of specific venture capital or private equity experience. Should specifically include language for emerging managers that encourages the following:

1. Development of state capacity for venture investing
 2. Create and grow new "organic" pools of capital
 3. Establish a minimum investment size for and a provision to include funding for micro-venture funding? *Provision that affords refundable credits for Private Foundations to encourage*
 4. Allocate 20% of each fund to provide greatest access to local capital, local firms *g.) Social venture philanthropy*
- High growth companies will be "export driven"- businesses focused on the sale, distribution, and integration of technologies that will largely be sold to foreign customers- e.g. Water Technologies and Energy Infrastructure and related services and technologies- where demand exceeds available supply. *\$40M each*
- Inclusion of companies focused on logistics and global supply-chain management *shared* be specifically added *\$80M* to list of qualified businesses eligible for investment.

Provision to include companies engaged in the sale, distribution, and integration of services and technologies for international and developing markets? Export driven technologies

These considerations and provisions are necessary to ensure program success and reflect best practices from existing and similar programs across the country.

"Clawback provision"

TEXAS

BUSINESS REVIEW

Bureau of Business Research • IC² Institute • The University of Texas at Austin

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Texas CAPCO and Economic Growth

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Texas Coalition for Capital

Introduction

Relative to other states, the Texas economy continues to outperform. On our own, Texas' economic output would rank 12th among all countries. An April 2010 *Newsweek* article stated, "Texas has always been something of a separate country when it comes to politics and culture. Lately, the state seems to be functioning as its own economic republic."¹ CNBC named Texas the "best place for business in the U.S." two of the past three years. But to remain competitive over the long-term, Texas needs capital to catalyze small business growth, create sustainable companies and high-wage jobs, and spur innovation.

Over the past decade, Texas has begun to create an investment "ecosystem" that rivals other states and even other countries. The Texas Certified Capital Company Program (CAPCO) is a powerful tool to help existing Texas small businesses flourish and attract new companies into the state.

The CAPCO program can best be described as a strategic public/private partnership that leverages private capital to fund sustainable small business growth. In 2003 and 2007, Texas passed legislation to provide funding to accelerate investment in small and early-stage businesses for high-paying job creation in the state.

The legislative intent of the CAPCO program is not, and was never suggested to be, simply to catalyze venture capital, although this is certainly a direct benefit. Likewise, the intent was never only to provide gap debt financing for promising small businesses that cannot secure bank

loans and that would never be viewed as attractive to traditional venture capitalists, although it excels in that aspect as well. The policy intent was intended to drive capital in ways that overcome market failures and strive to counteract geographic and socio-economic barriers.

CAPCO accomplishes these goals by mandating the rapid deployment of funds, focusing 100% of the capital within the borders of Texas, and steering a sizable portion into early-stage companies as well as into economically underserved communities. Finally, it continues this economic development goal through accountability. CAPCO fund managers must report annual performance on key data, including dollars invested and jobs, knowing that they can be (and have been) called back before the Legislature to defend their investment activity.²

The enabling legislation leverages \$400 million of investment capital (\$200 million in each of two programs) for small businesses located in the state. The tax credits occur at the rate of \$50 million per year starting in Year Five of each program.

Recently, the Texas Coalition for Capital undertook an extensive analysis of the economic impact of Texas CAPCO funds and their portfolio companies. Findings from this report complement information collected by the Texas Comptroller.

The Texas Comptroller issues a biennial report to the Legislature on the results of the CAPCO program that includes information on the size of investments, job creation and retention,

We estimate that the cash flows to Texas will not only cover all of the tax credits through 2015 but also provide *an additional \$625 million* in state tax revenue over that same time period, with continuing benefits to Texas beyond 2015.

location, size, and industry sector of companies receiving CAPCO investments. To date, there have been three reports filed by the Comptroller (2006, 2008, 2010) that report the program's performance in these areas from January 1, 2005 through December 31, 2009. The new Texas Coalition for Capital report takes those findings and makes projections about anticipated returns from the CAPCO program.

Once the total amount of capital under the CAPCO program is fully invested, it is estimated that a total of 175 small businesses will have been funded. We estimate that the cash flows to Texas will not only cover all of the tax credits through 2015 but also provide *an additional \$625 million* in state tax revenue over that same time period, with continuing benefits to Texas beyond 2015. Based on current trends, there will have been over 4,500 direct jobs and over 30,000 job-years created or retained by the end of 2015.

Based on the results of this analysis, it is our conclusion that Texas is realizing significant economic benefits from the CAPCO Program, over and above the initial cost of the investment.

Previous Research

A number of analyses released within the last two years have assessed the impact of the CAPCO program on the economic growth of Texas.

Particularly noteworthy was a report issued by the Texas Comptroller in December 2010. Her study found the following results through the end of 2009:

1. 81 unique companies have received investment funds and 6,332 job-years have been attributed to CAPCO investments, including:
 - 1,892 new jobs

- 4,440 retained jobs

2. \$188.7 million of capital investment has been distributed to Texas companies
3. \$100.0 million in premium tax credits have been applied

The Comptroller's report shows an average total investment per company of \$2.3 million. The boost in investment and the number of jobs created/retained shows the increasing impact of the CAPCO funds as the number of investments increased.³

While the number of companies receiving investment increased from 49 to 81, the job-years created went from 1,731 to 6,332. Part of the reason for the acceleration of the increase in job-years is that investment capital normally does not create immediate jobs, but instead builds the infrastructure for the expansion of businesses, which then in turn creates jobs over time.

Texas Coalition for Capital Study

To estimate the value of the CAPCO investments, we analyzed the total impact of the funds when they are totally invested, including job creation/retention and overall economic impact on the state's economy. We used five years of data from the two existing CAPCO programs to project investment patterns and job creation estimates for both programs. Actual average wage numbers, where available, were employed for the wage impact of the created and retained jobs. The projections of wage growth were limited to 1% per year (a conservative assumption). In addition, the indirect job creation, also known as the job multiplier, was taken at a conservative two times (2x) the direct job creation and retention, with a salary of 50% of those directly created. Total wages provided an estimate of gross business revenues obtained from the creation/retention of jobs attributed to the programs. From the Texas Comptroller's data, Texas received

... the only difference from the numbers in the Comptroller's report and those in our analysis is that we included the jobs created in companies that have "graduated" from the CAPCO program.

approximately 3.3% in tax revenue as a percent of the state's GDP (including all related sources of taxes).

The Comptroller's report analyzed only the companies that are currently participating in the program. We believe this underestimates the resultant figures for job creation and economic impact because a company that "graduates" from the CAPCO program, according to the Comptroller's methodology, is no longer included in the total jobs data. This small number currently is about 6% of the total employment numbers, but will certainly increase as the program matures. Therefore, the only difference from the numbers in the Comptroller's report and those in our analysis is that we included the jobs created in companies that have "graduated" from the CAPCO program.

Our report projects CAPCO results over the next five years. The assumptions being made on the data employed are described in each section below. In all cases, the assumptions that are made take a conservative (low impact) approach when projecting future estimates.

Table 1 shows the historical and projected total investments from the CAPCO funds through 2015 (the end of the investment tax credit recovery). This investment projection is based on the existing fund data and projected through 2015, when the last \$50 million of tax credits will be taken. The line in the chart below 2009 indicates the separation between actual data and projections.

The job creation projections were developed using both the investment pattern

and historical job creation to date. The job creation/retention numbers are shown in Table 2 along with their average wage data. It helps to remember that receiving the investment only starts the job creation cycle. From the time the monies are obtained, it is typically 12 months before job-creation benefits are fully realized.

The wage numbers through 2009 are actual averages from data available from the Comptroller. The wage number for 2010 is the average of the first five years. There is some indication that the actual number is higher, but official data is not available; consequently, the more conservative number is employed. From 2011 on, the wage rate is increased by 1% annually for inflation. While the 1% might not be achieved in 2011, an economic recovery could increase that number in 2012 by more than 3%.

In the last set of calculations we determined the total payroll per year for all of the CAPCO companies based on the jobs

TABLE 1
Historical & Projected CAPCO Investment Amounts

Year	Program 1	Program 2	Yearly Total	Cumulative
2005	\$ 22,081,280		\$ 22,081,280	\$ 22,081,280
2006	\$ 30,462,795		\$ 30,462,795	\$ 52,544,075
2007	\$ 33,770,009		\$ 33,770,009	\$ 86,314,084
2008	\$ 29,020,889	\$ 20,368,735	\$ 49,389,624	\$ 135,703,708
2009	\$ 11,043,872	\$ 41,932,863	\$ 52,976,735	\$ 188,680,443
2010	\$ 20,000,000	\$ 41,319,557	\$ 61,319,557	\$ 250,000,000
2011	\$ 20,000,000	\$ 20,000,000	\$ 40,000,000	\$ 290,000,000
2012	\$ 10,000,000	\$ 15,000,000	\$ 25,000,000	\$ 315,000,000
2013	\$ 10,000,000	\$ 15,000,000	\$ 25,000,000	\$ 340,000,000
2014	\$ 10,000,000	\$ 10,000,000	\$ 20,000,000	\$ 360,000,000
2015	\$ 3,621,155	\$ 10,000,000	\$ 13,621,155	\$ 373,621,155

created/retained. This set of values is shown in Table 4 under "Total Labor."

Next, we estimated the average percentage that labor expense typically makes up of a company's overall expenses, to obtain a value for the amount of total contribution to the state GDP for all of the CAPCO

Using the Comptroller's 2009 tax collection data, we calculated the tax revenue the state of Texas receives per dollar of state GDP contribution, which came out to be \$0.0332.

businesses. In the 1980s, economists estimated that the labor content of the auto industry (the most studied industry) in the early 1960s was 20%. Later work indicated that labor content declined over time, as part of a firm's total expenses, to the point that by the early 1980s it was 10-13%. Other economic research from 2007 showed that labor content among high-tech firms is 3-6% of overall expenses. For our projections, we conservatively chose 10% for the labor content of the businesses receiving funding (and verified using a random sampling of CAPCO companies).

TABLE 2
Jobs-Years and Average Wages for Firms Receiving CAPCO Funds

Year	Job-Years	Average Wage
2005	124	\$64,110
2006	960	\$56,289
2007	2,589	\$58,401
2008	4,512	\$53,655
2009	6,802	\$58,415
2010	9,836	\$58,756
2011	13,417	\$59,343
2012	17,543	\$59,937
2013	22,138	\$60,536
2014	26,993	\$61,141
2015	32,048	\$61,753

estimated state GDP contribution per year from the CAPCO companies by using the generally accepted ratio of labor/revenue of 10%. The final column in Table 3 shows the 3.32% that the state of Texas receives for the amount of state GDP contributed from the CAPCO companies.

To this point, our analysis has considered only the impact from jobs directly created by the CAPCO Program and not

considered the indirect jobs created from CAPCO spending. These indirect jobs are

TABLE 3
Calculation of Annual State Revenue Receipts

Year	Total Labor \$ /10%	Total CAPCO GDP	Est. State Tax Receipts
2005	\$ 7,949,656	\$ 79,496,560	\$ 2,638,314
2006	\$ 47,057,612	\$ 470,576,120	\$ 15,617,373
2007	\$ 95,134,448	\$ 951,344,480	\$ 31,573,005
2008	\$ 103,177,803	\$ 1,031,778,030	\$ 34,242,415
2009	\$ 133,770,710	\$ 1,337,707,099	\$ 44,395,519
2010	\$ 178,278,117	\$ 1,782,781,169	\$ 59,166,537
2011	\$ 208,870,642	\$ 2,088,706,418	\$ 69,319,514
2012	\$ 229,145,499	\$ 2,291,454,989	\$ 76,048,288
2013	\$ 259,812,708	\$ 2,598,127,078	\$ 86,226,051
2014	\$ 267,144,370	\$ 2,671,443,697	\$ 88,659,267
2015	\$ 280,024,711	\$ 2,800,247,106	\$ 92,933,965

Using the Comptroller's 2009 tax collection data, we calculated the tax revenue the state of Texas receives per dollar of state GDP contribution, which came out to be \$0.0332. We used the total labor content for all CAPCOs to arrive at the

usually in support industries and typically do not carry high wages, but they would not exist at all if it were not for the original CAPCO spending.

There are various job multiplier numbers that have been employed in past economic studies. The State of Texas has used a multiplier as high as 5:1 for the number of auxiliary jobs created by high-tech jobs. Ratios of 3:1 are considered more typical for many industries. To be conservative, we used a 2:1 ratio. Given the fact that the auxiliary jobs are typically less-skilled positions, a conservative assumption indicates that the resulting wages for the auxiliary jobs would be 50% of the average CAPCO wage. As shown in Table 4, we further assumed a delay of 24 months after the higher-wage jobs were retained or created before the support jobs are counted. Table 4 also includes the value to Texas from these auxiliary jobs with the same details as shown in Table 2 and Table 3.

Results

Table 5 shows the combination of funding received by Texas from both the initial impact of the CAPCO funds and the auxiliary jobs created as a result of the initial impact. These numbers reflect the 3.32%

Our findings show that even with the negative economic climate, the results of the CAPCO Program have been very positive and provide a significant Return on Investment (ROI) to the state of Texas.

return to the Texas treasury based on the gross revenues of the companies that are directly attributable to the effect of the

The fact that these two CAPCO programs have been generating jobs and creating an improved infrastructure for future expansion

illustrates the positive impact of programs like these.

Further analysis of CAPCO programs in the other states indicates that the amount and ratio of follow-on investment will continue

to increase. At this early stage of the program, the external private investment drawn into the CAPCO funded companies is slightly greater than 100% of the CAPCO funds received. Based on the experience of the older funds, several multiples of that amount should be anticipated.

All of the assumptions in the analysis are conservative when compared to generally accepted economic models (including the decision not to include any benefits from increased external capital investments).

TABLE 4 Indirect Jobs and Resulting Annual State Revenue Receipts					
Year	Annual Jobs	Wages	Total Labor \$	Total CAPCO GDP	Est. State Tax Receipts
2005					
2006					
2007	248	\$ 29,200	\$ 7,241,665	\$ 72,416,646	\$ 2,403,347
2008	1,672	\$ 26,827	\$ 44,855,249	\$ 448,552,487	\$ 14,886,458
2009	3,258	\$ 29,208	\$ 95,158,291	\$ 951,582,910	\$ 31,580,918
2010	3,846	\$ 29,378	\$ 112,987,063	\$ 1,129,870,627	\$ 37,497,890
2011	4,580	\$ 29,672	\$ 135,895,880	\$ 1,358,958,801	\$ 45,100,816
2012	6,068	\$ 29,968	\$ 181,861,507	\$ 1,818,615,071	\$ 60,355,784
2013	7,039	\$ 30,268	\$ 213,068,942	\$ 2,130,689,417	\$ 70,712,837
2014	7,646	\$ 30,571	\$ 233,751,323	\$ 2,337,513,235	\$ 77,576,858
2015	8,584	\$ 30,876	\$ 265,034,943	\$ 2,650,349,432	\$ 87,959,195

CAPCO program. Combined with this data are the Program tax credits through their complete recovery. The last column provides the cumulative Tax Return to Texas, which is strongly positive and continues to grow in the future.

Conclusion

Since 2008, the U.S. economy has experienced a severe economic downturn during which business growth and access to capital have been severely curtailed. Our findings show that even with the negative economic climate, the results of the CAPCO Program have been very positive and provide a significant Return on Investment (ROI) to the state of Texas. Figure 1 shows the contribution to the Texas revenue stream based on a single program.

TABLE 5 Cumulative Benefit to the State of Texas				
Year	Cumulative Texas Tax Receipts		Cumulative Tax Credits	Total Cumulative Tax Receipts
	Direct Jobs	Indirect Jobs		
2005	\$ 2,638,314			\$ 2,638,314
2006	\$ 18,255,687			\$ 18,255,687
2007	\$ 49,828,692	\$ 2,403,347		\$ 52,232,039
2008	\$ 84,071,107	\$ 17,289,805	(\$ 50,000,000)	\$ 51,360,912
2009	\$ 128,466,626	\$ 48,870,723	(\$ 100,000,000)	\$ 77,337,349
2010	\$ 187,633,163	\$ 86,368,613	(\$ 150,000,000)	\$ 124,001,775
2011	\$ 256,952,677	\$ 131,469,429	(\$ 200,000,000)	\$ 188,422,106
2012	\$ 333,000,965	\$ 191,825,213	(\$ 250,000,000)	\$ 274,826,178
2013	\$ 419,227,016	\$ 262,538,049	(\$ 300,000,000)	\$ 381,765,066
2014	\$ 507,886,283	\$ 340,114,908	(\$ 350,000,000)	\$ 498,001,191
2015	\$ 600,820,248	\$ 428,074,103	(\$ 400,000,000)	\$ 628,894,351

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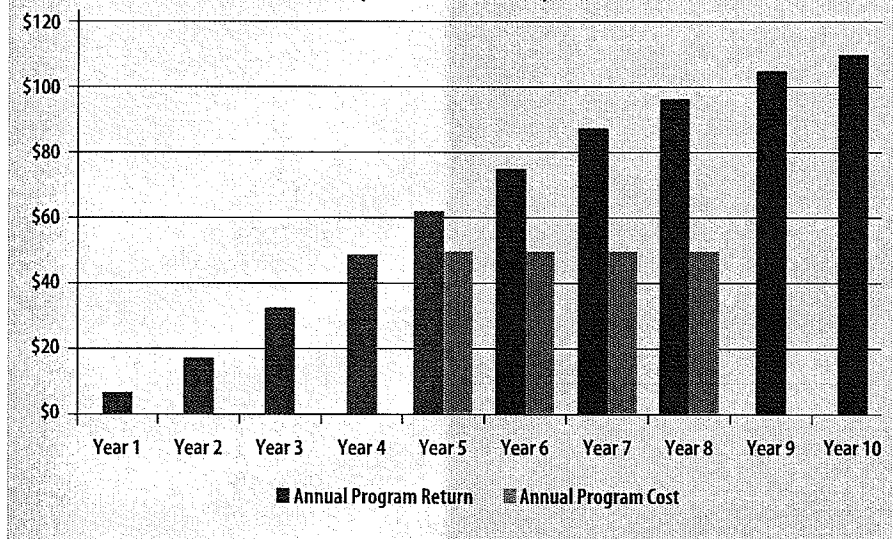
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FIGURE 1
Annual Program Returns / Costs
(Dollars in Millions)



Even with conservative assumptions, the Texas CAPCO program not only has demonstrated that it pays for itself on an annual basis by the time the first

tax credit is applied, but it also continues to bring economic benefits to the state well into the future.

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Wisconsin Jobs Act Testimony
Charlie Goff
NEW Capital Fund, LP

My name is Charlie Goff and I am a Managing Director of NEW Capital Fund, LP located in Appleton. NEW Capital is a small venture capital fund with eighty limited partners and approximately \$14 million of capital employed. Our fund started in 2006 we subsequently have invested in eleven companies, all located in Wisconsin.

I am here to speak on behalf of the Wisconsin Jobs Act.

It is a valid question to ask what role, if any, government should play in encouraging the venture capital industry in the state of Wisconsin. My answers are two fold; first the state has already played a pivotal role in encouraging early stage investment via the successful ACT 255 legislation. Second, the Wisconsin Jobs Act represents a major step forward in helping fill the equity capital void many early stage companies located in the state are experiencing.

Wisconsin became an innovator with the passage of Act 255, legislation which encouraged angel and venture investment in early stage high tech opportunities within the state. Without this state incentive, it is unlikely that first time funds such as NEW Capital would have attracted sufficient private capital to become viable. I saw firsthand how innovative state programs can have a positive impact on the entrepreneurial marketplace. For example:

- We invested in Rapid Diagnostek, a company pioneering a 60 second hand held assay platform technology on the condition they move their St Paul operations to Hudson WI. Today the Wisconsin based company has signed their first commercial license and are on their way to doubling employment.
- We invested in Ro-Flo Compressors, a company spun out of GE Oil & Gas' Oshkosh location in 2007. GE subsequently announced the closing of their Oshkosh facility, moving their compressor division and employees to Houston. Meanwhile Ro-Flo Compressors is thriving in its new location in Appleton.
- We started Frozen Codebase, a video game developer in Green Bay that now employs 22 highly regarded programmers and artists creating video games for Microsoft, Nintendo and Sony.
- We participated in the Flex Biomedical investment which resulted in the company moving from Boston to Madison. The company's osteoarthritis treatment technology has generated interest from several major health care organizations.
- We spun out Kimberly-Clark's ultrasonic R&D department into a new company called Aurizon Ultrasonics and moved their staff of 18 engineers and technicians to Kimberly WI. Aurizon is working to commercialize the former K-C ultrasonic portfolio of over 80 patents to a worldwide market place.

While Act 255 has been successful in encouraging initial investments in startup companies referenced above, the Act doesn't address the lack of venture capital in Wisconsin necessary to bridge upstart

companies through the period of early development and production stage. This is where the Wisconsin Jobs Act is essential in fostering the venture capital industry in Wisconsin.

The State of Wisconsin Investment Board released a white paper last year titled The Venture Capital Landscape & the Regional Capital Formation Requirement. The report argues that the conditions exist in Wisconsin to support a robust Venture Capital industry, namely we have:

- World-Class research and development institutions
- Effective technology transfer environment
- Corporate catalysts of management talent and M&A candidates
- Entrepreneurial and support concentrations
- A dynamic local/regional economic environment

The only condition missing is large pools of investment capital. Most of the nation's venture capital is currently managed by firms located on both coasts. Wisconsin has not been able to attract meaningful levels of later stage venture capital from out-of-state firms primarily because most VCs invest in businesses that are close to home. Although the amount of venture capital managed by Wisconsin based companies has been increasing, Wisconsin still significantly lags even neighboring states in the amount of venture capital employed.

The Wisconsin Jobs Act addresses this capital void by forming two innovative and well thought out programs; the Badger Jobs and the Jobs Now funds. This legislation will assist NEW Capital Fund in two specific ways:

- The Badger Jobs Fund leverages privately raised capital on a 75/25 basis. The "first in" 25% public portion will make fund raising from institutional investors far easier. Institutional capital is necessary if our fund is to achieve any degree of scale. Furthermore, given the reluctance of out-of-state VC firms to invest in many of our portfolio companies, having more capital to employ will allow us move promising companies further towards an exit.
- The Jobs Now Fund will provide funds such as NEW Capital the capacity to deals that we can only dream about today. While searching for deal flow the last couple of years there were numerous spin off opportunities in the northern part of the state that we had to pass on because of a lack of capacity. And while smaller early stage companies excel at bringing technology to market, corporate spin-offs are the opportunities which will lead to immediate and substantial job growth.

In conclusion, Act 255 was and is sound public policy that has accelerated the growth of early stage investing across the state. The Wisconsin Jobs Act is a bold public policy effort supporting the later stage equity capital needs of many of our portfolio businesses.

I urge you to support this bill.



**WISCONSIN
TECHNOLOGY
COUNCIL**

May 16, 2011

- **Assembly Committee on Jobs, Economy and Small Business;**
- **Senate Committee on Economic Development and Veterans and Military Affairs**

Testimony on Senate Bill 94

Tom Still, president, Wisconsin Technology Council

On behalf of the Wisconsin Technology Council, thank you for the opportunity to testify today.

As you may know, the Tech Council is an independent, non-profit organization that serves as a non-partisan science and technology advisory group to the governor and the Legislature.

Launched 10 years ago, our members include executives of technology companies, investors, leaders in “K-through-Gray” education, academic researchers and others who work with Wisconsin’s high-growth economy.

We publish occasional “white papers” on topics of interest to Wisconsin’s high-growth economy. Our board’s Investment Capital Committee has endorsed the concept of creating more

venture capital in Wisconsin, and provided feedback on the pros and cons of specific approaches.

I am here today to speak in favor of Senate Bill 94, which would create the Wisconsin Venture Capital Authority. This bill would help fuel the state's emerging high-growth economy and build upon the bipartisan work on the Legislature in the past.

The Wisconsin economy is in transition. We're working to attract, retain and grow jobs in sectors that have been historic strengths – such as manufacturing, agriculture and tourism. That work is vital. We should do the same in sectors that represent what's often called "The Knowledge Economy."

Those high-paying jobs are often imbedded in more traditional industries, but they're also found in emerging industries driven by medical and agricultural biotechnology, information technology, medical devices, nanotechnology and "cleantech," to cite a few. They are sectors where Wisconsin has many of the tools needed to compete – not only nationally, but globally.

Wisconsin is well above average in terms of its ability to create intellectual property, often measured by the number of patents and patent applications per capita. We're also well above-average in our ability to attract academic research dollars, thanks to institutions such as the University of Wisconsin, the Medical College of Wisconsin and others.

We also have the right mix of talent – not just among our scientists and technologists, who are truly world-class, but among an emerging group of managers who are experienced at bringing young companies to the next level. You'll meet some of those people today.

Historically, however, Wisconsin has lacked venture capital. This is capital invested in companies poised to grow rapidly, creating jobs and value for the economy. Over time, venture capital has spawned entire industries where none existed before, keeping America on the cutting edge of innovation.

Others here today will address the value of venture capital to the U.S. economy, but here's one statistic: Venture-backed companies in the United States accounted for 12.1 million jobs and \$2.9 trillion in revenue in 2008. That's according to the 2009 Venture Impact Study by IHS Global Insight.

Contrast that with Wisconsin's performance in attracting venture capital: There has never been a year since 1995, when the State Science and Technology Institute began collecting data, that Wisconsin was involved in more than six-tenths of 1 percent of all venture capital deals nationwide. If we simply matched our per capita share of the nation's population, we would attract about \$400 million per year in venture capital. In 2010, we recorded about \$120 million.

So, why hasn't Wisconsin attracted more venture capital – and the types of jobs that come with such investments?

Part of the answer is geography: Two-thirds of venture capital is invested in five states, basically on the coasts. But geography should be neither an excuse nor a barrier. Other states outside the East and West coasts have adopted a variety of programs that have helped increase their supply of venture capital.

In our region, those states include Michigan, Ohio, Indiana, Iowa, Missouri, Kansas and Oklahoma. Elsewhere, notable examples are North Carolina, Texas, Alabama, Arkansas, New Mexico, Arizona, Tennessee and Utah.

In Wisconsin, the stage has been set to compete with those states – but in a way that produces an indigenous Wisconsin solution, versus a copycat program. That is the promise of the Wisconsin Venture Capital Authority.

Ten years ago, a bill like this would have been premature. Wisconsin didn't have the start-up culture it has today. But much like professional baseball built a farm system to prepare players for the major leagues, Wisconsin has built a farm system for start-up companies.

Part of that farm system has been the Act 255 or Accelerate Wisconsin tax credits. These credits have helped bring capital off the sidelines and into the game. Angel capital is capital from

accredited individuals, networks and funds that is often among the first money invested beyond money from family, friends and founders. It is money that helps prepare young companies for the next round of investment.

Wisconsin today is a national leader in angel investing, with the number of early stage deals increasing nearly five-fold since 2005. The Act 255 credits have been so successful that Minnesota adopted them nearly verbatim.

Today, many angel-backed companies are poised for success. We see them daily through our programs, such as the Wisconsin Angel Network, the Wisconsin Entrepreneurs' Conference and the Wisconsin Early Stage Symposium. We see others on the way up in the Governor's Business Plan Contest.

But angel and other early stage investments can only take a company so far. At some point, usually starting at roughly \$2 million and running roughly to \$5 million, young firms need additional rounds of financing to get them through what is often called "the valley of death."

This bill helps companies cross the "valley of death" through the Jobs Now Fund, which would address that specific funding gap, and through the Badger Jobs Fund, which would help attract additional rounds of investment.

The Jobs Now Fund is a modified version of a certified capital company, or CAPCo, fund. The Badger Jobs Fund is a “fund-of-funds” approach used in a number of states, including those states I listed previously.

Some will question the Jobs Now Fund, but it is designed to help well-vetted, early stage companies now. And it does so through tax credits that could not be called upon for five years. The safeguards put into place by this bill would help ensure it fosters company growth at a competitive price.

And what is the No. 1 reason we don’t have enough venture capital in this state? We have so few venture funds. More venture firms in Wisconsin would mean more venture dollars invested in Wisconsin companies, and, in turn, attracting more outside venture funding to Wisconsin companies.

From my reading of this legislation, it would help small funds – including some angel funds – grow into real venture funds. That would go a long way towards helping us address our chronic venture capital problem.

Start-up companies are the No. 1 creators of jobs in Wisconsin and throughout the United States. Efforts such as the Wisconsin Venture Capital Authority bill can help ensure the most promising companies are prepared to cross the “Valley of Death” that awaits so many start-ups. Let’s not let these promising companies go thirsty.

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‘Frequently Asked Questions’ about venture capital

What kind of investors are venture capitalists?

Venture capitalists are professional investors who specialize in funding and building young, innovative enterprises. Venture capitalists are long-term investors who take a hands-on approach with all of their investments and actively work with entrepreneurial management teams in order to build great companies.

Where do venture capitalists get their money?

Most venture capital firms raise their “funds” from institutional investors, such as pension funds, insurance companies, endowments, foundations and high net worth individuals. The investors who invest in venture capital funds are referred to as “limited partners.” Venture capitalists, who manage the fund, are referred to as “general partners.” The general partners have a fiduciary responsibility to their limited partners.

How many venture capital firms are there in the United States?

There were about 794 venture capital firms in the United States in 2009; these firms manage about \$179 billion.

What's the average size of a venture capital fund?

In 2009, the average venture fund size was \$151 million. The average deal size in 2010 was about \$6.7 million.

How many companies receive venture capital financing each year?

In 2010, venture capitalists invested about \$23.3 billion into nearly 3,500 companies.

What types of companies and industries do venture capitalists invest in?

Venture capitalists invest mostly in young, private companies that have great potential for innovation and growth. Venture capitalists have been instrumental in developing sectors such as the computer, biotechnology and the communications industries. Today, the majority of venture capital is invested in high technology companies including software, biotechnology, medical devices, media and entertainment, wireless communications, Internet, and networking. In the last five years, the venture industry has also committed itself to investing in the clean technology sectors, which include renewable energy, environmental and sustainability technologies and power management. However, venture capitalists also invest in innovative companies within more traditional industries such as consumer products, manufacturing, financial services, and healthcare services and business products and services.

What effect does venture capital have on the economy?

Venture capital activity has a significant impact on the U.S and global economies. Venture capital is a catalyst for job creation, innovation, technology advancement, international competitiveness and increased tax revenues. According to the 2009 Venture Impact study, produced by IHS Global Insight, originally venture-backed companies accounted for 12.1 million jobs and over \$2.9 trillion in revenue in the United States (based on 2008 data).

How are venture capitalists different from other investors?

Venture capitalists are long-term investors who take a very active role in their portfolio companies. When a venture capitalist makes an investment he/she does not expect a return on that investment for seven to 10 years, on average. The initial investment is just the beginning of a long relationship between the venture capitalist and entrepreneur. Venture capitalists provide great value by providing capital and management expertise. Venture capitalists often are invaluable in building strong management teams, managing rapid growth and facilitating strategic partnerships.

How do venture capitalists realize a return on their investment?

The companies that venture capitalists invest in are private enterprises. Typically, the venture capitalist realizes a return on their investment when the company goes public (IPO) or is merged or purchased by another company (M&A).

What percentage of venture-backed companies succeed?

Venture capitalists invest in high-risk enterprises. However, venture capitalists manage that risk through portfolio risk management. It is estimated that 40 percent of venture backed companies fail; 40 percent return moderate amounts of capital; and only 20 percent or less produce high returns. It is the small percentage of high return deals that are most responsible for the venture capital industry consistently performing above the public markets.

What's the difference between venture capital and private equity?

Venture capital is a subset of the larger private equity asset class. The private equity asset class includes venture capital, angel capital, buyouts, and mezzanine investment activity. Venture capital focuses on investing in private, young, fast-growing companies. Buyout and mezzanine investing focuses on more mature companies. Angel capital can be invested by individuals, networks or funds. Venture capitalists also invest cash for equity. Unlike buyout professionals, venture capitalists do not use leverage in their transactions.

Sources: National Venture Capital Association; State Science and Technology Institute; Wisconsin Technology Council

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Early stage investment success stories in Wisconsin

Here are just some examples of how early stage, private equity investments are helping to create companies and jobs in Wisconsin.

Logistics Health Inc. – Founded by Don Weber, an entrepreneur whose military service convinced him there was room for a better system of managing the health of armed services personnel, Logistics Health Inc. went from under 20 employees 10 years ago to about 1,000 today. With an investment round led by TA Associates, Logistics Health grew into one of the mainstays of the La Crosse economy. It was recently acquired by UnitedHealth Group Inc.

U.S. Trailmaps – This Wausau-based venture was a past finalist in the Governor's Business Plan Contest and is a leading provider of GIS-derived map data for recreational trail activities. Founded in 2005, U.S. Trailmaps provides mapping data to leading GPS-device manufacturers. The company also provides data for map and smart phone application developers and co-develops related social media sites. Financing rounds totaling \$650,000 have been led by Fitchburg-based Kegonsa Capital Partners.

Idle Free Systems – Founded in Watertown, Idle Free Systems Inc. is an innovative provider of the only complete, year-round idle-elimination solutions for school buses and trucks. The Kegonsa Seed Fund was the seed round investor and in 2009 Idle Free closed on a first financing round of \$1.3 million. The company's 2010 sales results were very strong, exceeding 2009 by more than 200 percent. The company is hiring.

NimbleGen – This Madison-based company produces high-density DNA microarrays used in pharmaceutical research. Baird Venture Partners invested in NimbleGen in 2001, co-led a subsequent financing for the company in 2004, and exited its investment in 2007 when it was sold to Roche for \$272.5 million.

Mortgagebot – This is a provider of online mortgage application technology based in Cedarburg. Mortgagebot was founded in 1997 by M&I Bank. Original investors included Banc One Stonehenge Capital Fund Wisconsin and GE Mortgage Insurance. Mortgagebot was spun off in 2001 to a management-led group of investors, backed by \$84 million from Spectrum Equity Investors of Boston, Mass. On March 24, 2011, Davis + Henderson, a Toronto-based corporation acquired Mortgagebot, for \$231.8 million in cash. The acquisition is expected to close on or about April 13, 2011.

Pinstripe – This Milwaukee-based business services firm that provides recruitment process outsourcing. In 2005, Baird Venture Partners exited their investment in Pinstripe after helping the company with its Company Series' A Preferred Stock Financing.

Jellyfish.com – This Middleton-based company operates an online comparison shopping site. Jellyfish.com was founded in 2006 with the help of \$6.2 million from cash infusions from the founders and two financing rounds led by Fitchburg-based Kegonsa Capital Partners. Microsoft paid a reported \$50 million for the company in 2007.

TomoTherapy – This Madison-based company began as a University of Wisconsin-Madison spinout and grew into a major manufacturer of CT scanners for radiation therapy. In March 2011, TomoTherapy announced it will be acquired by Accuray for \$277 million. The combined company, which will maintain offices and manufacturing in Madison, will have an installed base of 550 units in 32 countries, and more than 1,100 employees. The combined revenue of the two companies in calendar year 2010 exceeded \$400 million, 30 percent of which was generated from service of the installed base. This is one of several Wisconsin companies with a CEO rooted in GE Healthcare, Fred Robertson.

Collectar – This Madison-based radiopharmaceutical company that designs and develops products to detect, treat and monitor human cancers. In 2007, Collectar raised \$7 million in what is believed to be the largest round of funding from angel investors in Wisconsin history. The \$13 million round was led by Venture Investors, which invests in early stage Wisconsin companies, and Advantage Capital of St. Louis. Collectar continues to meet the milestones necessary to complete clinical trials for its lead drug candidate, 131I-CLR1404.

Virent Energy – This producer of “green gasoline” is based in Madison and has attracted nearly \$100 million in funding since it spun out of the University of Wisconsin-Madison about nine years ago. Virent produces advanced sustainable biofuels, including biogasoline that can be run through standard gasoline pumps and jet fuel. In June 2010, Virent announced that it had closed on a \$46.4 million third round of funding. Investors included Royal Dutch Shell, Cargill and Honda.

NameProtect – This Madison-based company researches trademarks and monitors the internet for abuse of brand names, such as counterfeiting and “phishing” attacks. Nameprotect was sold in 2007 to Corporation Service Co., Wilmington, Del., for terms not disclosed. It had received venture funding from Milwaukee’s Mason Wells and the State of Wisconsin Investment Board.

Promega – This Fitchburg company has been described as the “granddaddy of biotechnology” in Wisconsin, and with good reason. Many biotech companies and managers in Wisconsin today can trace their lineage to Promega, which has grown to nearly 1,000 employees in Wisconsin and around the world. Privately held today, Promega grew in part through investments by Venture Investors LLC.

Prodesse – The rise and sale of Waukesha-based Prodesse Inc. to Gen-Probe of San Diego is a shining “how-to” example for Wisconsin entrepreneurs and investors working toward an exit.

After 13 years and \$4.5 million of investments, the company was acquired for \$60 million and an additional \$27 million of incentives, \$10 million of which were quickly met. The company's technology came from researchers at the Medical College of Wisconsin and in 2002 it received an initial investment of \$1.5 million by a group of angel investors. Further rounds of funding came from others, including the Marquette Golden Angels Network. Even after acquisition, the company's high-paying jobs remain in Wisconsin and Prodesse's investors are investing in more Wisconsin start-ups.

ZBB Technologies – Serial entrepreneur Eric Apfelbach has raised more than \$170 million, from grants to loans to venture capital, for the four start-ups he has led. His latest venture is helping to tackle the largest problem for the alternative energy market – reliability. ZBB Energy Corp.'s (NYSE AMEX: ZBB) energy storage technology and power control platforms enable integration of renewable energy sources, providing constant and level power from variable alternative energy sources. When President Obama wanted to visit a company that is making a difference in energy technology, he toured Milwaukee-based ZBB in mid-2010.

Eso-Technologies – Eso-Technologies made its debut to investors during the 2008 Wisconsin Early Stage Symposium's Elevator Pitch Olympics. Not only did co-founder Bonnie Reinke walk away from the contest with the first place trophy, she also pocketed several business cards from angel investors. The next year, she won the statewide Governor's Business Plan Contest. Those company building steps led to an investment of \$1 million from DaneVest Tech Fund, Phenomenelle Angels and Wisconsin Investment Partners. Investors were impressed by the management team and the company's life-saving, esophageal cardiac monitoring technology. Since the equity infusion the company has been cleared for initial trials, which are underway.

SoloGear -- SoloGear was co-founded by serial entrepreneur Chad Sorenson, whose previous start-up, Fluent Systems, was acquired 18 months after it was founded. SoloGear has developed a patent-pending fuel mixture that it has deployed first as a charcoal alternative called FlameDisk. The company has thus far raised more than \$6 million from investors. On April 27, 2011, BIC Corp. announced it had acquired SoloGear for an undisclosed price. The company continues to expand its Middleton, Wis.-based manufacturing and distribution facility to keep up with demand. FlameDisk is available at retailers nationwide including Target, Wal-Mart, The Home Depot and Aldi.

Semba Biosciences – Semba Biosciences was launched in 2005 by members of the management team from EMD Chemicals, formerly Novagen, after EMD's parent company consolidated the work of the Madison plant in San Diego. Then a funny thing happened: Virtually all of 70 EMD employees chose to stay in Wisconsin. A dozen of them are now working for Semba, a Fitchburg, Wis.-based firm that develops scientific equipment used to purify substances used in drug development and research, as well as the food industry. The company anticipates \$1 million in sales for 2010.

Aurizon Ultrasonics – Aurizon Ultrasonics is a technology spinout from the Fox Valley's Kimberly-Clark Corp. The ultrasonic technology uses sound waves rather than glue to do high-speed bonding of materials such as the plastic in diapers. NEW Capital fund invested in the

company's seed round and is a partner alongside Kimberly-Clark. Wisconsin is home to many large companies performing research and development. Aurizon is an example of an emerging model in Wisconsin where technology is transferred from bigger companies to start-ups, providing for a more entrepreneurial commercialization of the technology than available in a larger corporation.

Alice.com – “Why doesn't anyone buy toilet paper online?” As simple as that question might seem, it was the spark behind the creation of Alice.com, the latest web-based brainchild of Mark McGuire and Brian Wiegand, two of Wisconsin's serial entrepreneurs. Consumers who sign up at Alice.com can buy toilet paper, toothpaste, laundry detergent and other household essentials at reasonable prices and have them delivered to their homes with no shipping charges. Alice.com raised \$4.3 million late last year in a first financing round led by Kegonsa Capital and DaneVest Tech Fund. McGuire and Wiegand left Microsoft Corp.'s Madison office to start the company. They joined Microsoft when it acquired their last start-up, Jellyfish.com, for a reported \$50 million. This dynamic duo's other startups were Bizfilings.com (sold to Wolters-Kluwer in 2001) and NameProtect.com (sold to Corporation Services Corp. in 2007).

Mirus Bio Corp. – Jim Hagstrom is a small-town kid from Ashland, Wis., who helped land a big-time deal. Hagstrom is one of the founders of Mirus Bio Corp., which was acquired by Roche for \$125 million in 2008. The Swiss-based pharmaceutical company is keeping Roche-Mirus in Madison, where the company continues to work on its proprietary RNAi (Ribonucleic Acid interference) delivery platform. This was the second purchase by Roche in the Madison market. A year earlier, the company acquired NimbleGen for \$272.5 million.

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Wisconsin Technology Council Handouts

1. 2010/2011 White Paper-- Looking to the Future: A Case for Bold Action:

http://wisconsintechcouncil.com/publications/white_papers/?ID=373

2. Wisconsin Portfolio: Putting Risk Capital to Work

http://wisconsintechcouncil.com/publications/wi_portfolio/